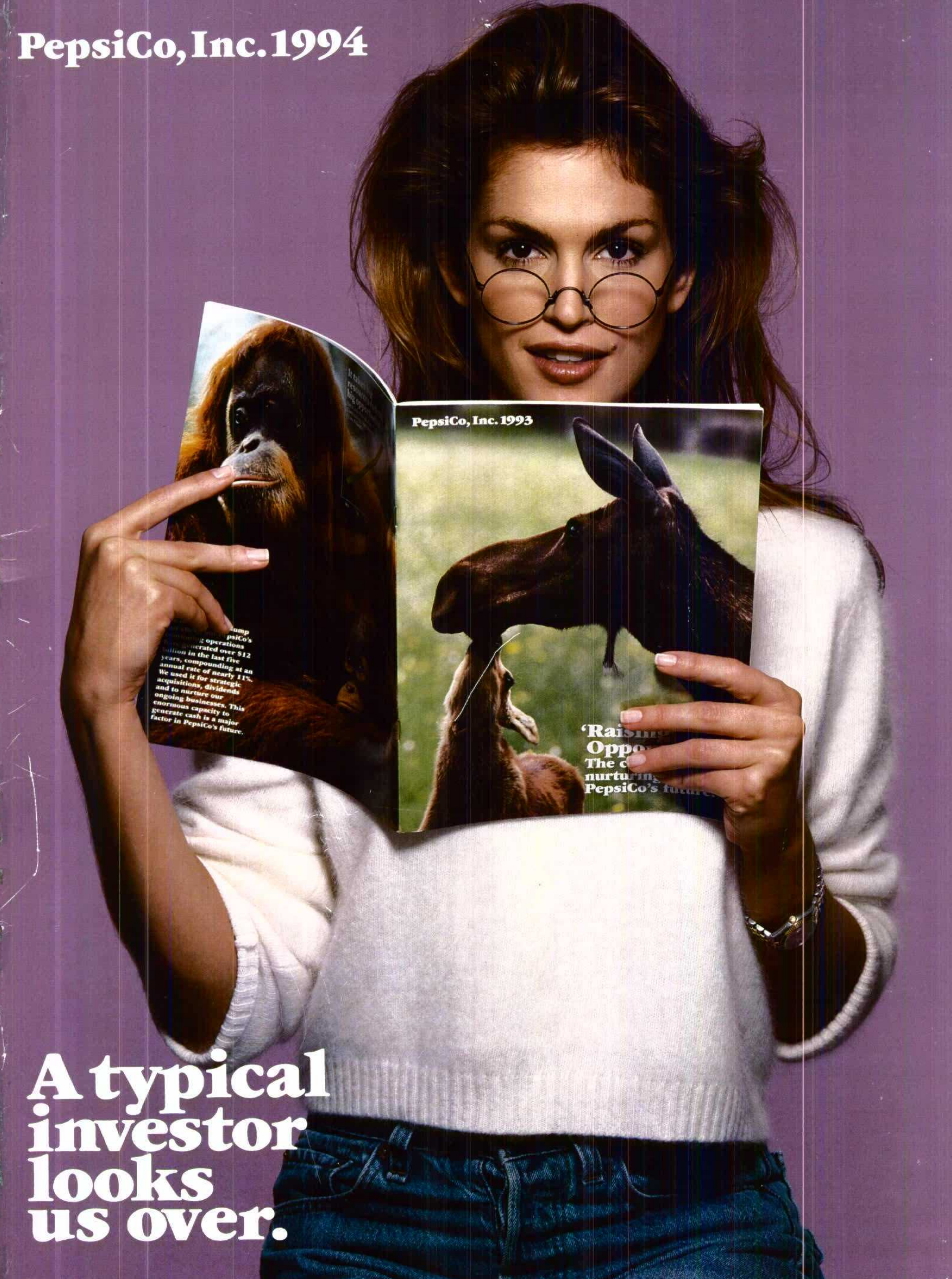
PepsiCo, Inc. 1994



A typical investor looks us over.

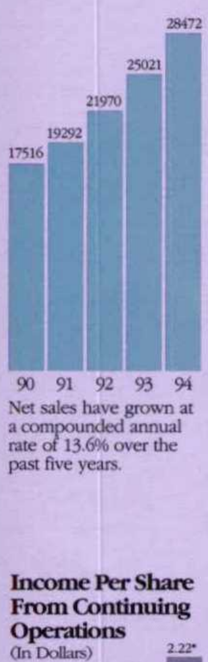
Contents

To humanize the facts, figures and financial data of our annual report, we decided to aim it at a real-live person – a typical investor-next-door.

We chose Cindy Crawford.

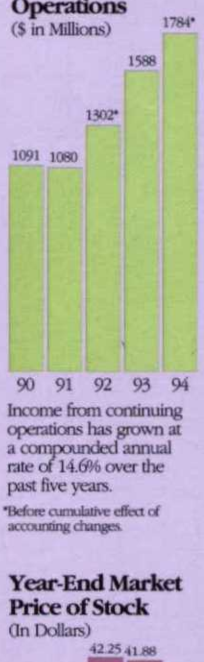
So, sit back, pop open a Pepsi and, along with Cindy, read about your company.

Net Sales
($ in Millions)



Net sales have grown at a compounded annual rate of 13.6% over the past five years.

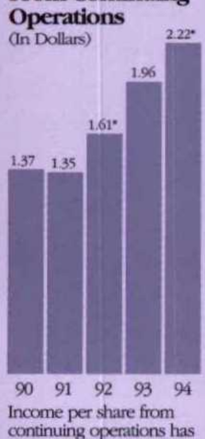
Income From Continuing Operations
($ in Millions)



Income from continuing operations has grown at a compounded annual rate of 14.6% over the past five years.

*Before cumulative effect of accounting changes.

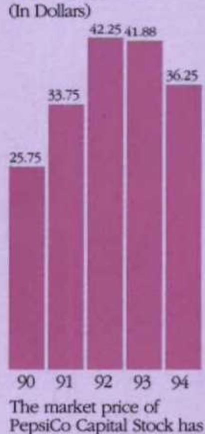
Income Per Share From Continuing Operations
(In Dollars)



Income per share from continuing operations has grown at a compounded annual rate of 14.5% over the past five years.

*Before cumulative effect of accounting changes.

Year-End Market Price of Stock
(In Dollars)



The market price of PepsiCo Capital Stock has grown at a compounded annual rate of 11.1% over the past five years.

Financial Highlights

PepsiCo, Inc. and Subsidiaries (dollars in millions except per share amounts)	**December 31, 1994** (a)	December 25, 1993 (a)	**Percent Change**
Net sales	**$28,472**	25,021	**+ 14**
Beverages	**$ 9,687**	8,638	**+ 12**
Snack foods	**$ 8,264**	7,027	**+ 18**
Restaurants	**$10,521**	9,356	**+ 12**
Segment operating profits	**$ 3,324**	3,077	**+ 8**
Beverages	**$ 1,217**	1,109	**+ 10**
Snack foods	**$ 1,377**	1,190	**+ 16**
Restaurants	**$ 730**	778	**- 6**
Consolidated operating profit	**$ 3,201**	2,907	**+ 10**
Income before cumulative effect of accounting changes	**$ 1,784**	1,588	**+ 12** (b)
Per Share	**$ 2.22**	1.96	**+ 13** (b)
Cumulative effect of accounting changes	**$ (32)**	–	–
Per Share	**$ (0.04)**	–	–
Net income	**$ 1,752**	1,588	**(b)(c)**
Per Share	**$ 2.18**	1.96	**(b)(c)**
Cash dividends declared **Per Share**	**$ 0.70**	0.61	**+ 15**
Net cash provided by operating activities	**$ 3,716**	3,134	**+ 19**
Capital spending (d)	**$ 2,288**	2,008	**+ 14**
Cash dividends paid	**$ 540**	462	**+ 17**
Acquisitions and investments in affiliates (e)	**$ 355**	1,376	
Purchases of treasury stock	**$ 549**	464	
Return on average shareholders' equity (f)	**% 27.0**	27.2	

(a) Fiscal years 1994 and 1993 consisted of 53 and 52 weeks, respectively. The estimated favorable impact of the 53rd week on 1994 earnings was $54.0 ($34.9 after-tax or $0.04 per share).

(b) These comparisons are affected by a $16.8 after-tax gain ($0.02 per share) in 1994 arising from a public share offering by PepsiCo's BAESA joint venture and a $29.9 charge ($0.04 per share) in 1993 due to 1993 U.S. tax legislation. See Notes 4 and 17, respectively.

(c) These comparisons are not meaningful because of two accounting changes in 1994. See Notes 13 and 14.

(d) Included noncash amounts related to capital leases of $35 in 1994 and $26 in 1993.

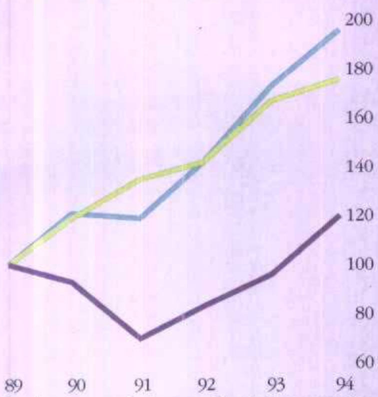
(e) Included noncash amounts, principally treasury stock issued, of $39 in 1994 and $365 in 1993.

(f) Return on average shareholders' equity was calculated using income before cumulative effect of accounting changes.

Dear Friends:

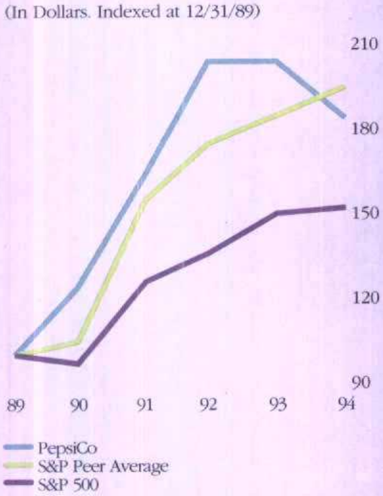
Wayne Calloway, Chairman of the Board and Chief Executive Officer

Earnings Per Share* Growth
(In Percent. Indexed at 12/31/89)



*Earnings from continuing operations before cumulative effect of accounting changes.

Cumulative Total Return
(In Dollars. Indexed at 12/31/89)



PepsiCo has generally outperformed the S&P 500, as well as the average of our peers, a combination of the S&P Beverages, Food and Restaurant groups. In 1994, PepsiCo's return to shareholders, including stock appreciation plus dividends reinvested, underperformed our peers because of a midyear decline in PepsiCo's stock price.

As I was telling Cindy, PepsiCo had a strong year in 1994 – for the most part.

Sales, earnings and dividends hit all-time highs. Particularly strong were domestic soft drinks and domestic snack foods, our two most profitable businesses.

Our international beverage and snack businesses also had a big year. And across all of our international businesses, sales grew to more than $8 billion. That's bigger than all of PepsiCo was just nine years ago.

On the other hand, our restaurant segment slowed down in 1994. While sales grew a respectable 12% and earnings were nearly three-quarters of a billion dollars, that was still a good bit shy of the remarkable 17% average annual growth our restaurants had posted for well over a decade. In response, we've already realigned and strengthened management and created some promising new programs.

Overall, if you look over at the Financial Highlights page, you'll see it was a good year for PepsiCo, with reported earnings per share growing at 13%. That's faster than the average of our peers in the food, beverage and restaurant businesses. In fact, over the last five years our earnings per share have grown at a compounded annual rate of 14%, faster than the average of our peer companies and a lot faster than the S&P 500.

Looking at our business as a whole, I believe PepsiCo today is strong and healthy. We have some challenges, of course, like getting our restaurants back up to speed and managing the impact of a devalued Mexican peso. Still, we anticipate solid operating profit growth in 1995.

Even better, the opportunity farther out is almost breathtaking. The markets in which we compete add up to over half a trillion dollars, and they're growing. I believe we have a better shot at capturing a big piece of that than any other company on earth, which is exactly what we plan to do.

Measuring the Business

PepsiCo's ability to turn opportunities into success depends on two things. First, how we respond to changes in the marketplace. Second, the overall health of the company.

Usually in these reports we talk more about how we're pursuing market opportunities by reaching out to consumers – things like new products and new brand strategies. Rest assured we continue to keep a sharp eye on the consumer, and we'll certainly report on some of what we've been doing.

But mostly I'd like to share with you – and with Cindy – a little about the basic health of PepsiCo. How we measure the business. How we gauge our progress. What we look at to determine if we're on the right track.

In other words, some of the ways we evaluate and manage this big, complex, growing enterprise.

By doing this, I hope to give you a better sense of why I believe PepsiCo will give shareholders a wonderful return on their investment over the long haul.

Four of Our Yardsticks

There are different ways to look at different businesses. Because PepsiCo is a very large, multi-line, growth-oriented consumer products company, we look primarily at four measurements:

- Volume growth.
- Operating profit growth.
- Cash growth.
- Investment returns.

Here's how I think about them.

Volume Growth

Other than acquisitions, the only unassailable, completely healthy way for a consumer business to grow year in and year out is to sell more products. In our case this means selling lots more bottles of Pepsi, bags of chips, buckets of chicken. Volume growth is

probably the single best gauge of a consumer products company, because it tells us whether we're satisfying consumers and how we're doing against our competitors.

In 1994, volume was up at nearly all our businesses, especially in beverages and snack foods. At Frito-Lay, for example, we had our first year of double-digit volume growth ever, a particularly remarkable feat when you think Frito-Lay already has been one of the most successful food companies in the world for years. International beverages had its strongest volume growth in over a decade. And our oldest business, domestic beverages, bounded along at a 6% rate – its best since 1988.

Even in our restaurants, which had a disappointing year overall, there were some encouraging volume signs. KFC's volume growth was the best in four years. And Taco Bell posted its sixth consecutive year of volume growth. During that time Taco Bell's volume grew at a compounded annual rate of 11%.

So in terms of volume growth, most of our businesses are doing just fine.

Operating Profit Growth

Now obviously volume has to grow in a way that's profitable. And when you combine our strong volume growth with good profit margins, you're headed for the kind of operating profits that would make any investor smile. Over the last five years, our operating profit margin has been fairly steady, averaging 11%. As a result, our operating profits have grown at a compounded annual rate of 13%.

What's more interesting to the tough-minded among us is that we maintained our profit margins even as we were lowering prices in many of our businesses. The fact is, in competitive businesses like ours, it's pretty hard to raise prices. So to stay competitive and keep our profit margins healthy, we work at improving the way we do things, sometimes in pretty creative ways.

At Taco Bell, for example, we've taken the kitchen, or a good part of it, out of the restaurant. Instead a lot of the food is prepared in central commissaries. That helped Taco Bell to offer top-quality products at terrific prices and achieve operating profit growth greater than almost any big chain for nearly a decade.

So based on operating profit growth, PepsiCo is also in excellent shape.

Cash Growth

One of my favorite measures of financial strength, and one that says an awful lot about PepsiCo, is cash. I'm talking about what's left after we pay for things like labor and raw materials.

All three of our business segments generate operating cash and plenty of it – totaling nearly $5 billion in 1994. And that's been growing steadily. Our segment operating cash grew at 9% in 1994 and at a compounded annual rate of 13% over the past five years.

It's easy to see why a business that produces cash probably has brighter prospects than one that doesn't. But a very strong cash flow, like we produce, gives us the financial muscle to grow year after year. Part of the reason is that a strong cash flow allows us to easily – and comfortably – borrow money if we need it to take advantage of market opportunities.

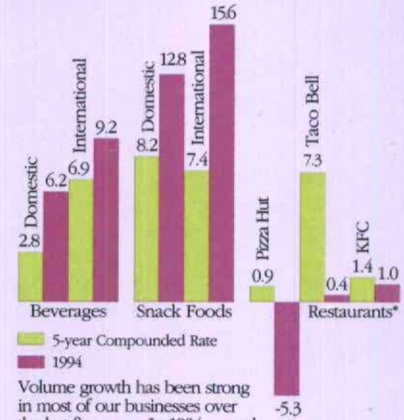
We have a very deliberate strategy for flexing that financial muscle. Our first priority is to make capital investments in our existing businesses. Second, we acquire new businesses closely related to either beverages, snacks or restaurants. Third, we buy back PepsiCo shares.

Over the last five years with our strong cash flow we've been able to invest over $8 billion in existing businesses, invest nearly $4 billion in new ones, pay $2 billion in dividends and repurchase more than $1 billion worth of PepsiCo stock.

Investment Returns

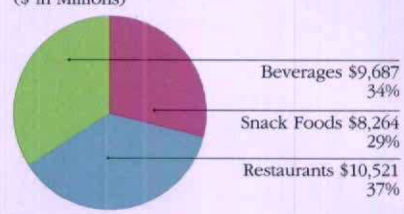
Of course when you're investing $3 billion a year, as we did in 1994, it's important to be smart about it. That's where our fourth measurement comes in. We look for our individual investments to produce returns well over our 11% cost of capital. And the higher those returns are, the more value we create for our shareholders.

Volume Growth
(In Percent)

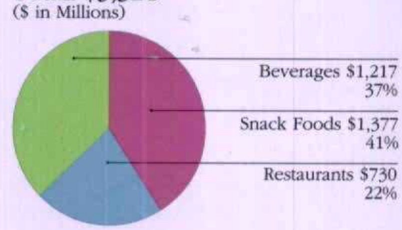


Volume growth has been strong in most of our businesses over the last five years. In 1994, growth accelerated in beverages and snack foods, although it slowed in restaurants.
*Domestic only.

Net Sales
Total: $28,472
($ in Millions)



Segment Operating Profits
Total: $3,324
($ in Millions)



Sales continue to be fairly evenly split, although operating profits continue to be led by snack foods.

Net Sales
Total: $28,472
($ in Millions)

Segment Operating Profits
Total: $3,324
($ in Millions)

Over the last 10 years, international has more than doubled its share of sales and profits.

If you look at our investment in PepsiCo overall, measured by our return on equity, the results are excellent. In 1994 our return on equity was 27%, nearly our best in a decade. And over the last five years it's averaged about 25%.

Putting It All Together

So, as I pointed out to Cindy, these four ways we measure and manage our business – volume growth, operating profit growth, cash growth and investment returns – tell me PepsiCo is thriving. I hope you get the same feeling.

Taken all together they offer a clear sign that PepsiCo is strong and growing stronger. Even more important, they tell me that PepsiCo is ready and able to seize the opportunities of its half-trillion-dollar marketplace.

I'll share some more specifics later in this report when I talk about beverages, snacks and restaurants individually.

Measuring Our People

As important as numbers are to a company, the most important measure is not numerical, it's human.

How well are your executives doing? How about your store managers? Your sales people? Your line workers?

Each year I ask myself if the people who are responsible for our business are getting better. The answer in 1994 is yes, in a big way. All across our company I see talent emerging. Each year I personally review the progress of nearly 800 people in PepsiCo, and my conclusion this year is this: Our people are doing great.

In fact, a recent book on the subject said PepsiCo people are the most sought-after in business, by corporations across America and around the globe. Having met a few thousand of them, I certainly know why. I'd like to thank all our people, all 471,000 of them, for their skill, dedication and hard work. They make my life a joy.

New Board Member

Speaking of great people I'd like to take this opportunity to introduce Franklin Thomas, the newest member of our Board of Directors. Frank has served 15 years as president of the Ford Foundation, the world's largest philanthropic foundation. Under his direction, the organization's endowment nearly tripled. Frank's worldwide experience and vision will serve PepsiCo very well. We welcome him to the family.

A Glorious Future

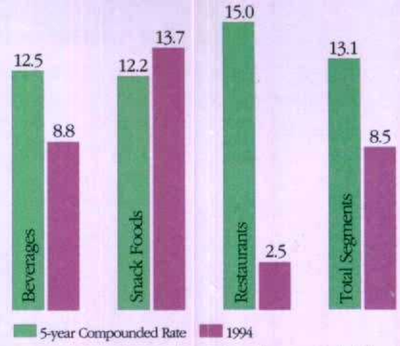
So, with opportunities greater than any company on earth – in my unbiased opinion – and nearly a half million bright, talented and resourceful members of the PepsiCo family passionately pursuing them, I'm confident that PepsiCo's future will be even more glorious than its past.

Please read on to learn more about why.

Wayne Calloway

Wayne Calloway
Chairman of the Board and Chief Executive Officer

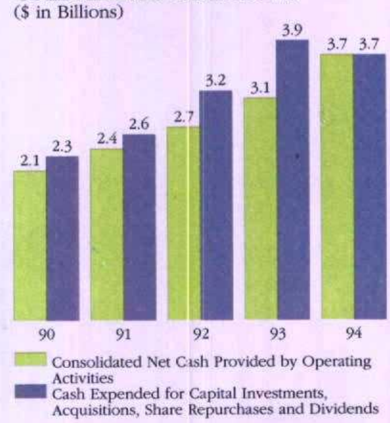
Segment Operating Cash* Growth
(In Percent)



Segment operating cash continued to grow, yielding $4.9 billion in 1994. All three segments contributed to our positive cash flow covering their own capital spending needs with cash to spare.

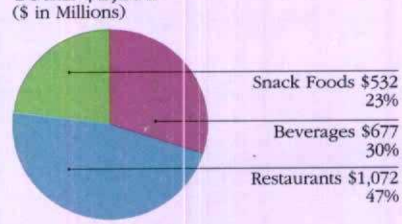
*Segment operating cash is segment operating profits before depreciation and amortization, and excludes capital spending.

Consolidated Cash Flows
($ in Billions)



Consolidated net cash flows from operations largely funded capital spending, acquisitions, share repurchases and dividends.

Segment Capital Spending
Total: $2,281
($ in Millions)



Segment Capital Spending
Total: $2,281
($ in Millions)

Total segment capital spending increased 15%. Restaurants declined slightly as a percent of the total. Most of the increase went to beverages, where we're expanding our alternative beverages in the U.S. and investing in emerging international markets.

Beverages

Chairman's Perspective

Our beverage business had a terrific year – its best volume growth since 1988. Worldwide volume grew by 8%. Profits grew by $108 million, or 10%.

Not bad for a business whose flagship product – Brand Pepsi – is about 100 years old. It's also a clear sign that innovation and lively competition can really stimulate this business.

In the U.S., we started the year with three goals. First, to reinvigorate our core soft drink business. Second, to beat back the advance of private label soft drinks. And third, to accelerate our expansion into higher-growth alternative beverages – things like tea, sports drinks, juices and bottled water.

Now, in fairness, we knew from the outset that if we accomplished the first goal, we'd have a big head start on the second. But the fact is, we accomplished all three. Let me explain what we did.

To add some fizz to our carbonated soft drink business and beat private labels at their own game, we streamlined our organization and cut costs – so we could price our products more aggressively. We also gave consumers some things private labels don't, like exciting promotions and innovative, convenient packages.

The results were spectacular. For example, in supermarkets, the largest distribution channel, volume jumped, with Brand Pepsi up 15% and Diet Pepsi up 8%. The Cube, our easy-to-store 24-pack, increased our total 24-pack volume by nearly 80%. With all that going on, private label share growth stopped.

On our third goal, expanding our alternative beverage business, our progress was even more dramatic. Volume doubled in 1994. Our ready-to-drink Lipton tea became America's best-selling iced tea. And All Sport, which we launched nationally in 1994, became the nation's number two sports drink.

Outside the U.S., our growth strategy is a little different. We're using product and package inno-

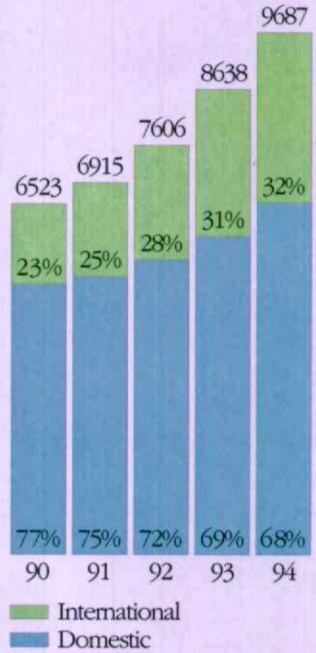
Introduced 1898.
Estimated 1994
Retail Sales: $17.9 Billion.

Introduced 1957.
Estimated 1994
Retail Sales:
$1.2 Billion.
(Sold outside the U.S.)

Introduced 1964.
Estimated 1994
Retail Sales: $4.2 Billion.

Acquired 1964.
Estimated 1994
Retail Sales: $3.2 Billion.

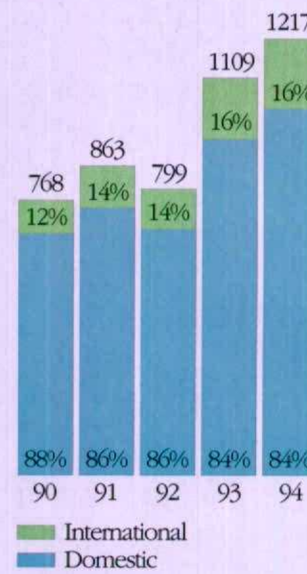
Beverages Net Sales
% of Total Segment Net Sales
($ in Millions)



International sales have compounded at 22% a year over the last five years

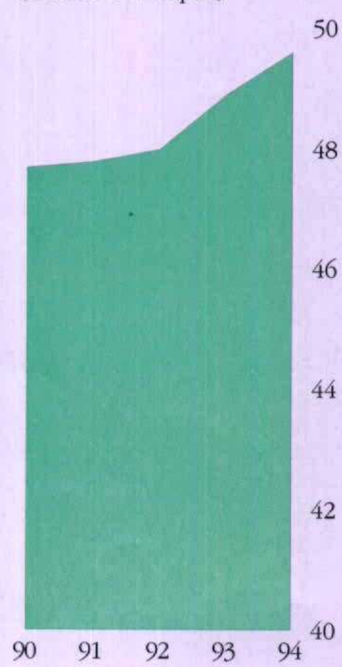
Net Sales grew at a five-year compounded annual growth rate of 10.9%.

Beverages Operating Profits
% of Total Segment Operating Profits
($ in Millions)



Profits grew at a five-year compounded annual growth rate of 13.2%, excluding 1989 unusual items.

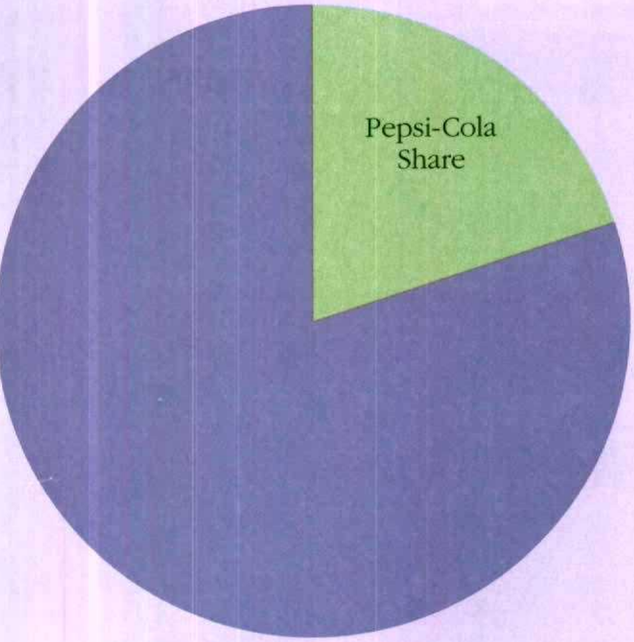
U.S. Soft Drink Consumption
(Gallons Per Capita)



When volume jumps, so do profits.

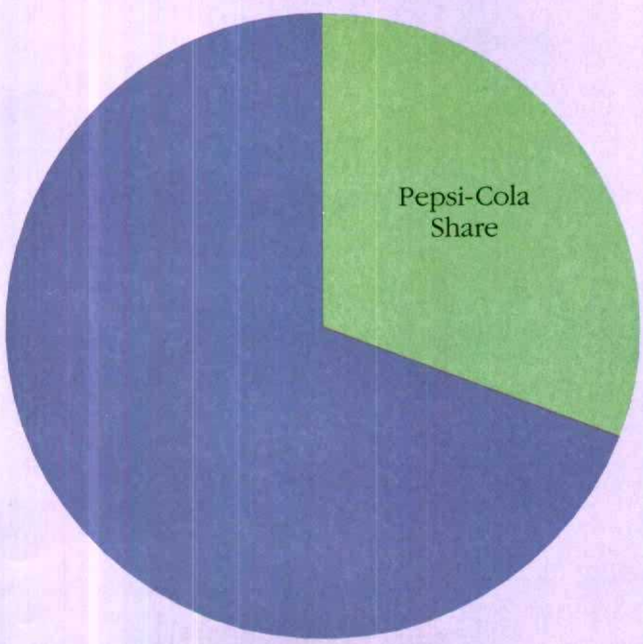
Soft drinks are thriving, with per capita consumption accelerating over the last two years.

Pepsi-Cola Share of its Beverage Categories



Pepsi-Cola products account for about one-fifth of the combined U.S. soft drink, tea, bottled water, sports drink and juice categories.

U.S. Soft Drink Industry Retail Sales



U.S. retail sales of soft drinks reached $50 billion. Pepsi-Cola brands account for nearly one-third of the industry.

vation to stimulate markets and give us a competitive edge. And, we're reshaping our bottling system to improve our economics.

Pepsi Max is an example of our international product innovation. It's a great tasting low-calorie cola containing a sweetener not yet available in the United States. With Pepsi Max we're making impressive gains in countries where diet drinks haven't been widely accepted. Already, we've introduced Pepsi Max in 27 countries, and we expect to add over 30 more in 1995.

And in a business where big production and distribution systems can mean big profits, we're dramatically strengthening our international bottling system. Our goal is to expand distribution as well as improve profit margins. For example, BAESA, a "superbottler" formed in 1993, is rapidly expanding our business in Brazil and Argentina, two of South America's biggest soft drink markets.

In vastly underdeveloped soft drink markets, including some of the most populous countries on earth, we're investing very aggressively. Like China, where we'll build 10 new bottling plants over the next few years. And India, where we've expanded to most major cities and already captured about a third of the fast-growing soft drink market.

You'll find more information in Management's Analysis.

Management's Analysis

See Management's Analysis – Overview on page 24 for background information and discussion of the fifty-third week in 1994 and Business Segments on page 27 for detailed results. Net sales and operating profits within this discussion include the impact of the fifty-third week. System bottler case sales of Pepsi Corporate brands (case sales) were not impacted by the fifty-third week because they are measured on a calendar year basis.

1994 vs. 1993

Worldwide net sales increased $1.0 billion or 12% to $9.7 billion. The fifty-third week contributed approximately 1 point to the sales growth with domestic and international operations benefiting by about 2 points and 1 point, respectively. Comparisons are affected by acquisitions, consisting primarily of franchised bottling operations in the U.S. and Asia, as well as the absence of certain small bottling operations sold or contributed to joint ventures (collectively, "net acquisitions"). Net acquisitions, principally domestic, contributed $161 million or 2 points to worldwide sales growth.

Domestic sales rose $623 million or 11% to $6.5 billion. Net acquisitions contributed $158 million or 3 points to sales growth. Volume growth contributed $510 million, driven by carbonated soft drink (CSD) packaged products. This benefit, combined with a mix shift to the higher-priced alternative beverage packaged products and higher concentrate and fountain syrup pricing, was partially offset by lower net pricing to retailers and a mix shift to The Cube, our value-priced 24-pack. The lower net pricing reflected increased price discounts and promotional allowances for CSD in response to private label competition and Lipton brand tea. See Note 1 for discussion concerning classification of promotional price allowances. Domestic alternative beverages comprise primarily Lipton brand tea, All Sport and Ocean Spray Lemonade products. CSD comprises the balance of the

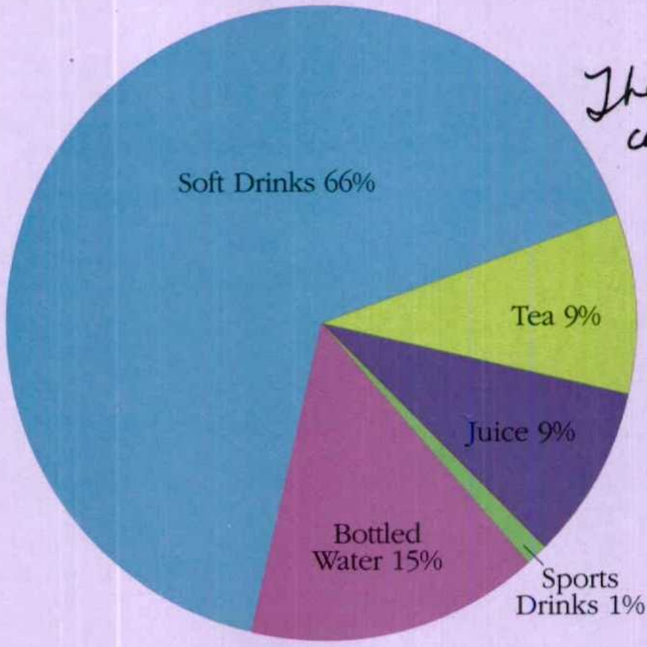
Pepsi Corporate beverage portfolio.

Case sales volume consists of sales of packaged products to retailers and through vending machines and fountain syrup by company-owned and franchised bottlers. Previously existing Ocean Spray products sold to retailers under a distribution agreement are not included in reported case sales growth. Domestic case sales increased 6%, reflecting strong double-digit growth in the Mountain Dew brand and solid gains in Brand Pepsi. Case sales growth also benefited by strong double-digit growth in Lipton brand tea and gains in the Diet Pepsi brand. These advances, combined with the national distribution of All Sport and Ocean Spray Lemonade in 1994 and gains in the Slice brands, were partially offset by significant declines in the Crystal Pepsi brands. Alternative beverages contributed 2 points to the case sales growth. Case sales of fountain syrup grew at a slower rate than packaged products.

International sales rose $426 million or 16% to $3.2 billion. This growth reflected higher volume of $300 million, the start-up of company-owned bottling and distribution operations, principally in Eastern Europe, and the first year of sales of Stolichnaya vodka under the 1994 appointment of an affiliate of Grand Metropolitan as the exclusive U.S. and Canadian distributor. Higher concentrate pricing was offset by an unfavorable currency translation impact and lower net pricing on packaged products. The unfavorable currency translation impact reflected a weaker Canadian dollar, Spanish peseta and Mexican peso, partially offset by a stronger Japanese yen.

International case sales increased 9%, reflecting strong double-digit growth in Asia, led by China and India, and solid advances in Latin America, as growth in Mexico more than offset declines in Venezuela. Latin America and Mexico represent our largest international case sales region and country, respectively.

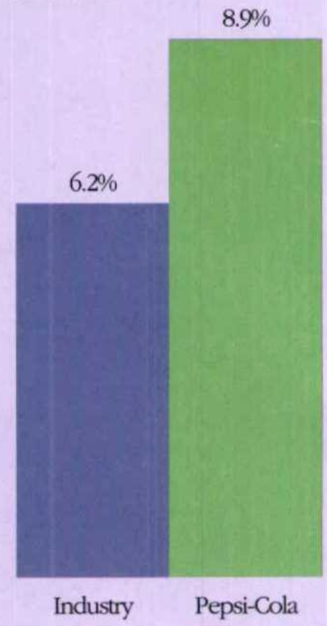
Pepsi-Cola U.S. Beverage Categories



The ready-to-drink tea category grew 60% and we're #1!

Alternative beverage categories expand our market to include a faster-growing segment.

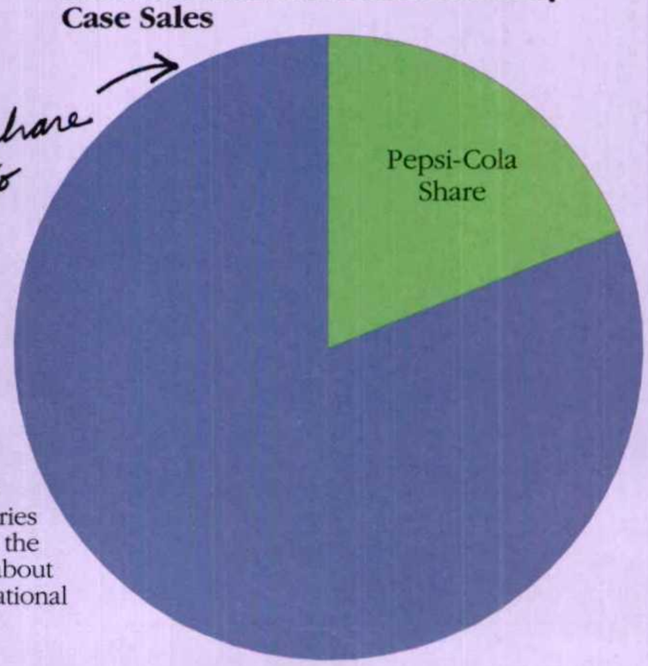
U.S. Supermarkets Soft Drink Case Sales Growth



Aggressive pricing and new packaging resulted in the fastest growth for both Pepsi-Cola and the industry in over a decade.

International Soft Drink Industry Case Sales

Our market share continued to increase.



Pepsi-Cola brands are available in 195 countries and territories outside the U.S. and account for about one-fifth of the international soft drink industry.

Double-digit advances in Eastern Europe and the Middle East, combined with single-digit growth in Western Europe and Canada, were partially offset by declines in Africa. Pepsi Max, a new low-calorie cola, aided case sales growth.

Worldwide operating profits increased $108 million or 10% to $1.2 billion. The fifty-third week enhanced profit growth by approximately 2 points with domestic and international operations benefiting by about 1 point and 2 points, respectively.

Domestic profits increased $85 million or 9% to $1.0 billion. Volume gains, driven by packaged products, contributed $305 million to profit growth. This benefit, combined with the higher concentrate and fountain syrup pricing, was partially offset by higher operating expenses, the lower net pricing to retailers, the mix shift to The Cube and increased product costs. Selling and distribution expenses grew at a faster rate than sales, driven by higher volume-driven labor costs. Advertising and marketing costs grew at a slower rate than sales. Administrative expenses declined modestly reflecting savings from a 1994 consolidation of headquarters and field operations and a reduction in the scope of the 1992 restructuring actions, both discussed below. These benefits were largely offset by normal increases in administrative expenses. The increased product costs reflected the mix shift to the higher cost alternative beverages and higher ingredient costs, partially offset by lower packaging costs. Alternative beverages, driven by Lipton brand tea, aided the profit growth. The domestic profit margin declined slightly to 15.6%.

In the third quarter of 1994, Pepsi-Cola reversed into income $24.2 million of the $115.4 million restructuring accrual established in 1992 and, in the third and fourth quarters, recorded additional charges totaling $22.3 million, primarily reflecting management's decision to further consolidate field and headquarters operations. The 1994 charges cover severance costs associated with employee terminations and relocation costs for employees who, in 1994, have accepted offers to relocate. See 1993 vs. 1992 discussion for a description of the 1992 restructuring charge.

The $24.2 million reversal reflects both refinements of the estimates originally used to establish the accrual, principally for costs associated with displaced employees, and management's decision to reduce the scope of the restructuring. The nationwide implementation of several of the anticipated administrative and business process redesigns has been completed, with the balance of the redesigns projected to be completed over the next three years.

The benefits of the restructuring activities, when fully implemented, were originally projected to be approximately $105 million annually, based on reduced employee and facility costs. The current projection of annual benefits from these sources has decreased to approximately $40 million reflecting, in part, the reduced scope of the restructuring. While difficult to measure, in 1994 Pepsi-Cola estimated other sources of benefits from the restructuring of approximately $90 million annually, based on centralization of purchasing activities and incremental volume and pricing from improvements in administrative and business processes. These additional sources of benefits, although identified when the 1992 restructuring accrual was established, were not included in the projected annual benefits due to significant uncertainties and difficulties in quantifying the amounts, if any, of such benefits. Due to delays in implementing some of the restructuring actions, full realization of the expected benefits also has been delayed. Benefits in 1994 were offset by incremental costs associated with the continued development and implementation of the restructuring actions. This offset is expected to continue into 1995. Net benefits are expected to begin in 1996 and to increase annually until fully realized in 1998. All benefits derived from the restructuring actions will be reinvested in the business to strengthen our competitive position.

International profits increased $23 million or 13% to $195 million. Net acquisitions reduced profits by $9 million or 5 points. The increased profits reflected volume growth of $75 million, led by concentrate shipments. This benefit, combined with a decline in advertising and marketing expenses not attributed to volume growth, was partially offset by increased field and headquarters administrative expenses, start-up losses, principally in Eastern Europe, and an unfavorable currency translation impact, primarily from the Mexican peso and the Canadian dollar. The increased administrative expenses reflected costs to support expansion in developing markets. The higher concentrate pricing was partially offset by a decline in finished product sales to franchised bottlers, principally in Japan, and the lower net pricing on packaged products. Increased profits from the first year of sales of Stolichnaya, under the 1994 appointment of an affiliate of Grand Metropolitan as the exclusive U.S. and Canadian distributor, aided profit growth. The new Pepsi Max product significantly contributed to profit growth. Profits increased in Latin America, led by Mexico, and in Western Europe, reflecting significantly reduced losses in Germany. Profits also grew in Asia, reflecting advances in Japan. The profit growth was restrained by start-up losses in Eastern Europe and declines in Canada, reflecting private label competition. The international profit margin remained relatively unchanged at 6.2%.

The 1992 restructuring actions to streamline the acquired Spanish franchised bottling operation were substantially completed in 1994. These actions have resulted in total savings approximating $15 million in 1994, with total annual savings expected to grow to about $20 million in 1995, consistent with our original projection.

Introduced 1984.
Estimated 1994
Retail Sales:
$590 Million.

Acquired 1986.
Estimated 1994
Retail Sales: $1.9 Billion.
(PepsiCo owns brand 7UP outside the U.S.)

Acquired 1986.
Estimated 1994
Retail Sales:
$150 Million.

Introduced 1989.

Distributed since 1991.

Introduced 1991.

Introduced 1992.

Introduced 1993.
Estimated 1994
Retail Sales: $294 Million.
(Sold outside the U.S.)

Introduced 1994.

These savings will continue to be reinvested in our businesses to strengthen our competitive position.

The significant devaluation of the Mexican peso in late 1994 and early 1995 did not materially impact 1994 international beverage operating profits. However, because Mexico, our largest profit country, represented approximately 22% of international beverage operating profits in 1994, the devaluation and its related effects are expected to have an unfavorable impact on 1995 operating profits. The operations in Mexico have begun to take actions to increase volume, enhance net pricing and reduce costs, including evaluating alternative sourcing of raw materials. Nonetheless, significant uncertainties remain in Mexico and, as a result, it is not possible to quantify the impact. International beverages has also begun to take actions in several other countries in 1995 to help mitigate the impact.

1993 vs. 1992

Worldwide net sales increased $1.0 billion or 14% to $8.6 billion. Comparisons are affected by net acquisitions, consisting primarily of acquisitions of franchised bottling operations in Spain and the U.S., as well as the absence of results of certain small international bottling and distribution operations sold or contributed to a joint venture. Net acquisitions contributed $697 million or 10 points to worldwide sales growth.

Domestic sales grew $433 million or 8% to $5.9 billion. Acquisitions contributed $222 million or 4 points of domestic sales growth. Volume growth, driven by new products, contributed approximately $170 million. The balance of the sales growth reflected a mix shift to new products with higher net prices, principally the new Lipton Original brand ready-to-drink tea products and certain Ocean Spray brand juice products.

Domestic case sales increased 3%, reflecting the impact of the late 1992 introduction of Crystal Pepsi and Diet Crystal Pepsi brands, the growth in Mountain Dew brands and the expanded distribution of new Lipton brand tea products. Case sales of fountain syrup grew at the same rate as packaged products. Excluding the Lipton products, case sales volume grew 2%, driven by a double-digit increase in Mountain Dew. Case sales of the Crystal Pepsi brands offset a decline in brands Pepsi and Diet Pepsi.

International sales rose $600 million or 28% to $2.7 billion. Net acquisitions contributed $476 million or 22 points of sales growth. The balance of the sales growth reflected higher concentrate pricing, led by Latin America as well as the start-up of company-owned distribution operations in France and Eastern Europe. Sales growth was depressed by the unfavorable currency translation impact of a stronger U.S. dollar in both concentrate and bottling operations. A small decline in existing bottling operations reflected lower pricing in Germany, largely offset by higher prices and volumes in Greece.

International case sales rose 7%. Excluding the newly acquired KAS flavor brands in Spain, international case sales grew 5%. This performance reflected solid advances in Latin America as well as double-digit growth in Asia, led by China and Pakistan, and in Eastern Europe, led by Turkey and Hungary. The Middle East, particularly Saudi Arabia, also contributed to case sales growth.

Worldwide operating profits increased $310 million or 39% to $1.1 billion. Excluding the 1992 restructuring charges totaling $145 million ($115.4 million for domestic and $29.6 million for international), profits were up 18%.

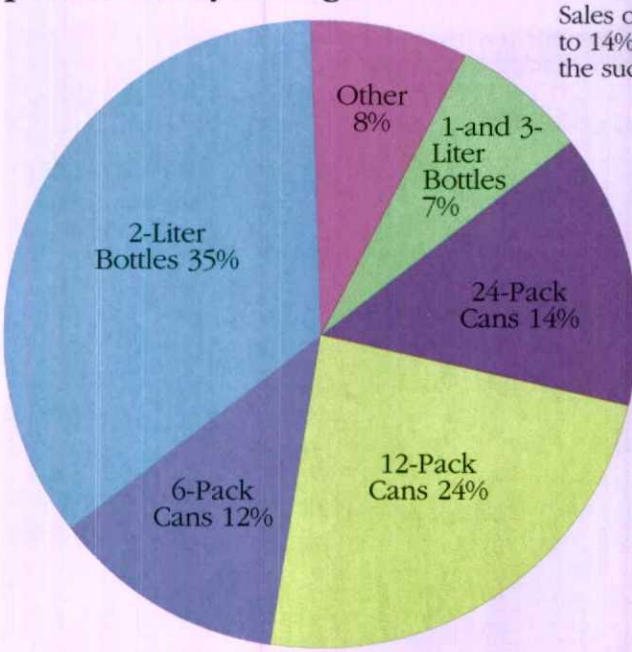
The 1992 domestic charge arose from an organizational restructuring designed to improve customer focus by realigning resources consistent with Pepsi-Cola's "Right Side Up" operating philosophy, as well as a redesign of key administrative and business processes. The organizational restructuring was completed in 1992. The redesign of core processes is ongoing. The charge included provisions for costs associated with redeployed and displaced employees, the redesign of core processes and office closures.

The international restructuring charge, which related primarily to displaced employees, included $18.5 million to streamline the acquired Spanish franchised bottling operation. This amount represented 30% (PepsiCo's ownership interest prior to the acquisition of the remaining interest) of the total cost of the streamlining. The remaining $11.1 million of the charge represented costs associated with streamlining the worldwide field management organization which was substantially completed in 1993.

The costs provided for in these domestic and international restructuring actions and the related savings are principally of a cash nature. The benefits of the completed international worldwide actions resulted in annual savings of $7 million, as originally projected. The savings will continue to be reinvested in the business to strengthen our competitive position.

Domestic profits increased $250 million or 37% to $937 million. Excluding the 1992 restructuring charge, profits grew $135 million or 17%. Volume gains, led by new products, contributed about $90 million to profits. The combined benefit of lower packaging and ingredient costs and the favorable product mix shift was largely offset by higher operating expenses. Profit growth also benefited from a $12 million reduction in retiree health care expense due to 1993 plan amendments described in Note 12, as well as a $9 million credit arising from a net adjustment of accruals related to prior years' acquisitions. Promotional costs were about even with last year; however, selling and administrative expenses grew at a faster rate than sales due to transitional costs to support the organizational and process redesign initiatives discussed above. This higher level

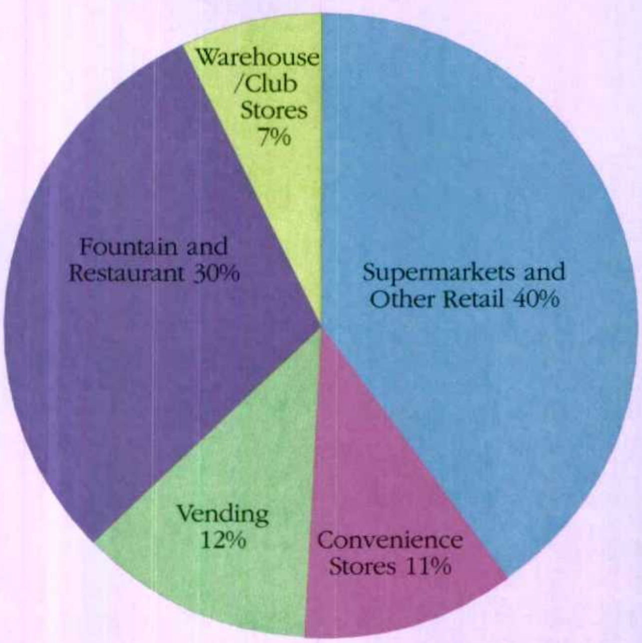
U.S. Soft Drink Industry Sales to Supermarkets by Package



Sales of 24-packs grew from 10% to 14% of the mix, due in part to the success of The Cube.

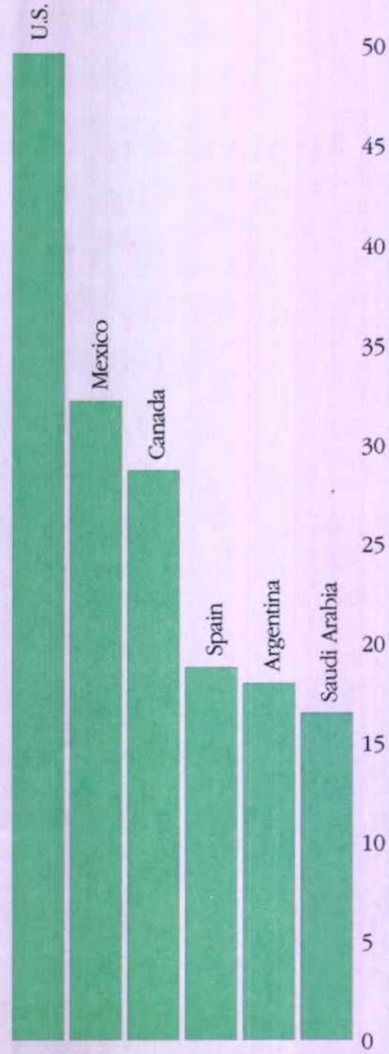
24-packs of Brand Pepsi were up more than 80%.

U.S. Soft Drink Industry Distribution Channels



Sales of Pepsi-Cola brands in supermarkets, the largest distribution channel, were up 8.9%.

International Soft Drink Consumption
(Gallons Per Capita)



Estimated annual per capita consumption of soft drinks around the world is low compared to the U.S. In emerging markets such as China and India, per capita consumption is less than one gallon a year.

of selling and administrative costs as a percentage of sales is expected to continue until the benefits of these initiatives are realized. Sales of the new higher-margin Lipton Original brand tea products resulted in a significant contribution to profit growth. The Crystal Pepsi products particularly aided first quarter results, but did not significantly impact full year profits. The domestic profit margin, excluding the 1992 restructuring charge, grew over 1 point to 15.8%.

International profits increased $60 million or 53% to $172 million. Excluding the 1992 restructuring charge, profits grew $30 million or 21%. The profit advance, led by Latin America, reflected higher concentrate pricing in excess of increased operating expenses, and concentrate shipment growth that contributed about $15 million. These benefits were partially offset by increased losses in company-owned bottling and distribution operations, led by Germany. Start-ups of distribution operations also contributed to the increased losses. Unfavorable currency translation impacts, principally in concentrate operations, also negatively affected profit growth. A profit decline in bottling operations in Japan, due to increased operating expenses, was offset by growth in Canada, reflecting administrative cost reductions through consolidation of support functions in recently acquired operations. The Canadian improvement was achieved despite a $12.2 million fourth quarter 1993 charge to further streamline operations and strengthen its competitive position. Offsetting this effect was an $11.9 million credit in the second quarter of 1993 related to a settlement of litigation with a former franchised bottler in Europe. The international profit margin, excluding the 1992 restructuring charge, declined almost one-half point to 6.3%. Excluding the impact of the lower margin net acquisitions, the profit margin grew 1 point.

Snack Foods

Chairman's Perspective

Our snack food business had a great year. Worldwide volume was up 14% and profits were up $187 million, or 16%. And, as far as I can tell, the growth opportunity is virtually unlimited.

Frito-Lay, our U.S. snack company, has been around for decades and is growing faster than ever. There are really two keys to tapping this highly-expandable market.

First, it's important to make products easily accessible to consumers. With about 13,000 salespeople and nearly 400,000 retail customers, Frito-Lay's growing distribution system already dwarfs even its largest national competitor.

The next step is to create enough interest and excitement among consumers to grow not just your own share of the market, but the market itself. Advertising and promotions obviously play a role in that. But year after year, Frito-Lay creates more interest and excitement than anyone else in the business by continually introducing terrific new products and exciting twists on established brands.

The launch of Wavy Lay's brand and Lay's KC Masterpiece Barbecue Flavor brand potato chips, for example, added more than $300 million to retail sales of our Lay's potato chip brand, which was already over a billion dollar seller.

For Americans who love snacking but hate fat, we're adding reduced-fat products – and I believe this is a whole new category of opportunity for us. Volume of our Rold Gold brand pretzels, naturally low in fat, jumped almost 60% in 1994. And we introduced a fat-free Rold Gold pretzel, plus Baked Tostitos, a low-fat cousin of our nearly $600 million Tostitos brand tortilla chip. With still more new products on the way, low-and reduced-fat snacks could be a big business for us in a few years.

Introduced 1932. Estimated 1994 Retail Sales: $715 Million.

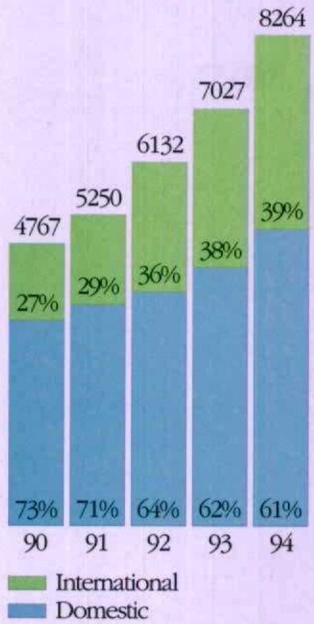
Introduced 1938. Estimated 1994 Retail Sales: $1.4 Billion.

Introduced 1948. Estimated 1994 Retail Sales: $835 Million.

Snack Foods Net Sales

% of Total Segment Net Sales
($ in Millions)

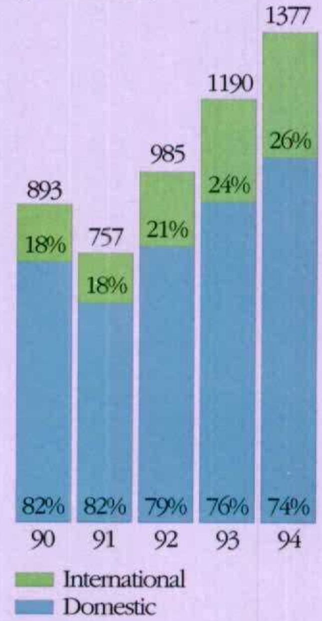
Volume growth is the key.



The five-year compounded annual growth rate was 15.5%.

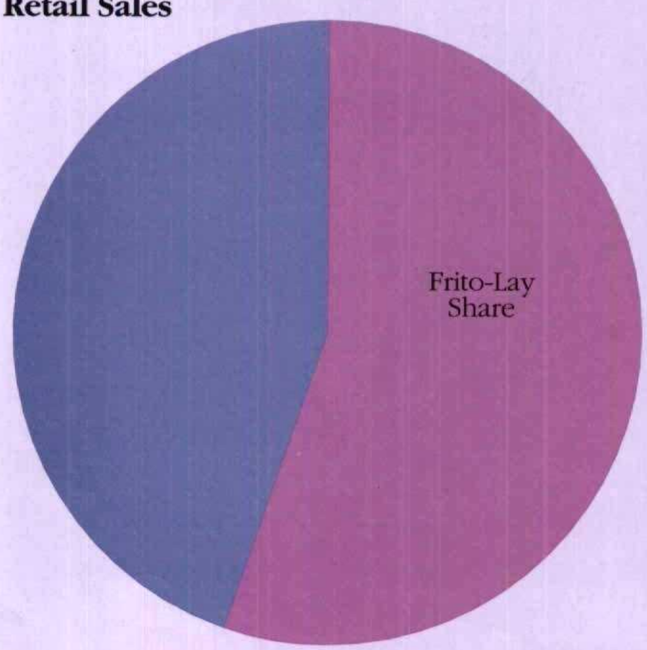
Snack Foods Operating Profits

% of Total Segment Operating Profits
($ in Millions)



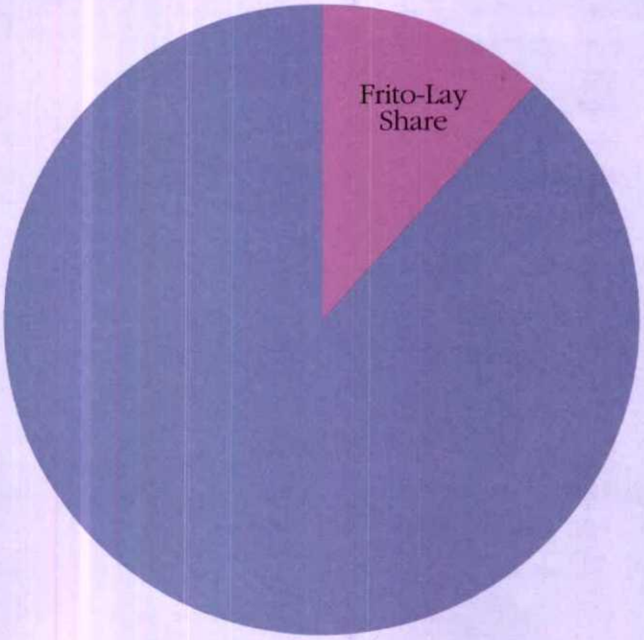
The five-year compounded annual growth rate was 12.2%,

U.S. Snack Chip Industry Retail Sales



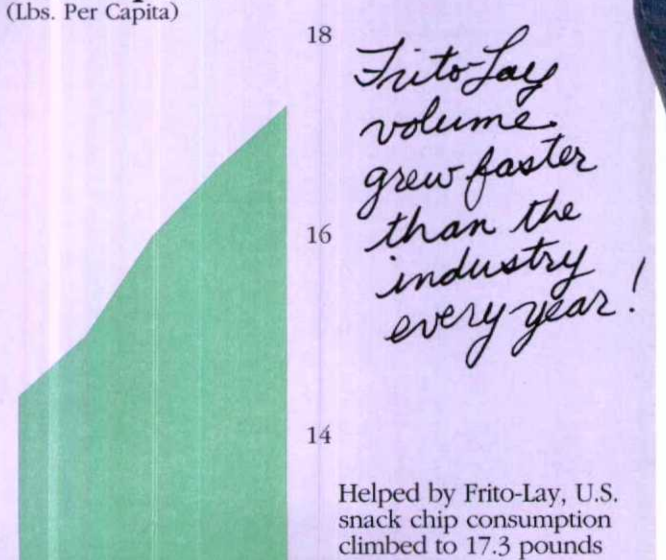
U.S. retail sales of snack chips reached $11.7 billion. Frito-Lay accounted for more than half.

U.S. Snack Food Industry Retail Sales



U.S. retail sales of snack foods, including such things as chips, candy, cookies, puddings, dips, nuts and other items, totaled more than $60 billion. Frito-Lay's share was $7 billion, or 12%.

U.S. Snack Chip Consumption
(Lbs. Per Capita)



Helped by Frito-Lay, U.S. snack chip consumption climbed to 17.3 pounds per person.

But even as we pursue the enormous opportunity at Frito-Lay, we're rapidly developing our business in scores of international markets, where snacking isn't yet a national sport.

We're already the world's largest producer of snack chips outside the U.S. But we're rapidly expanding by introducing new products where we're already established, and investing aggressively in exciting new markets, like China.

Being the biggest kid on the global block gives us some powerful advantages over our international competitors. We have a broad portfolio of products that can be adapted for other markets. For example, our American-born Doritos brand has been so popular since we introduced it in the United Kingdom in 1994, that we're adding a production line to keep up with demand.

We also have more snack manufacturing experience and technological expertise than anyone on earth. And, as our international markets grow, we'll begin to achieve the kind of scale that can dramatically improve our efficiency – and our profit margins.

Now, here are some more specifics in our Management's Analysis.

Management's Analysis

See Management's Analysis – Overview on page 24 for background information and discussion of the fifty-third week in 1994 and Business Segments on page 27 for detailed results. Net sales and operating profits within this discussion include the impact of the fifty-third week while pound and kilo growth have been adjusted to exclude its impact.

1994 vs. 1993

Worldwide net sales rose $1.2 billion or 18% to $8.3 billion. The fifty-third week contributed approximately 2 points to the sales growth with domestic and international operations benefiting by about 2 points and 1 point, respectively.

Domestic sales grew $646 million or 15% to $5.0 billion, reflecting volume growth of $660 million. Volume gains reflected growth in most major brands and line extensions of existing products. Sales growth was further aided by increased promotional price allowances and marketing programs to retailers, which are reported as marketing expenses and therefore do not reduce reported sales. See Note 1 for further discussion concerning classification

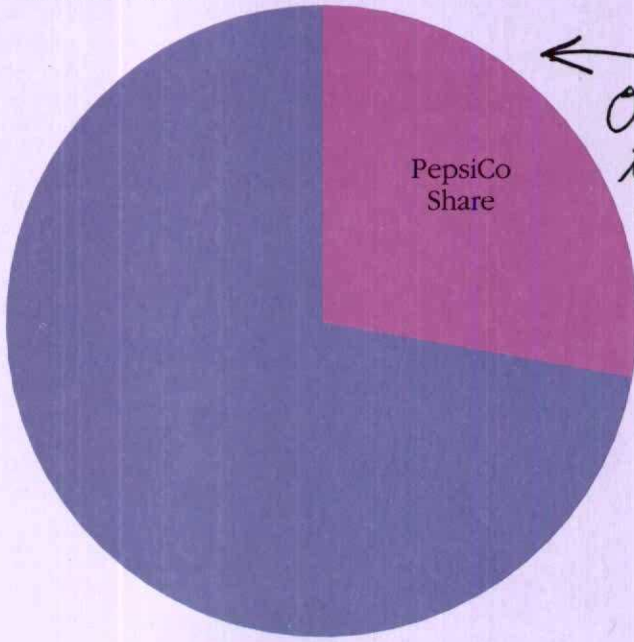
of promotional price allowances. Higher gross pricing was offset by a sales mix shift to larger, value-oriented packages and products with lower gross prices.

Total domestic pound volume advanced 13%. This performance was led by strong double-digit growth in Lay's brand potato chips, reflecting the successful promotion of Wavy Lay's brand potato chips and growth of Lay's KC Masterpiece Barbecue Flavor brand potato chips, Rold Gold and Rold Gold Fat Free Thins brand pretzels and Tostitos brand tortilla chips, driven by Restaurant Style Tostitos brand and the expanded distribution of Baked Tostitos brand. Doritos brand tortilla chips had solid single-digit volume growth while Fritos brand corn chips and Chee•tos brand cheese flavored snacks reflected low double-digit growth. Ruffles brand potato chips showed modest growth.

International sales rose $592 million or 22% to $3.3 billion. Confectioneries (primarily candy and cookies) account for approximately 30% of international snack food sales. Acquisitions contributed $67 million or 2 points to sales growth. The balance of the sales growth was driven by higher volumes, which contributed $590 million, led by successful promotions by the Sabritas snack chip and candy business in Mexico. A favorable brand mix shift to higher-priced products, primarily in Latin America and the U.K., and higher pricing were largely offset by the unfavorable currency translation impact of a stronger U.S. dollar, principally against the Mexican peso.

International kilo growth is reported on a systemwide basis, which includes both consolidated businesses and joint ventures operating for at least one year. Systemwide snack chip kilos rose 16%, led by strong double-digit growth at Sabritas, in Spain and Brazil and solid gains in the U.K. Systemwide confectionary kilos also grew 16%, reflecting

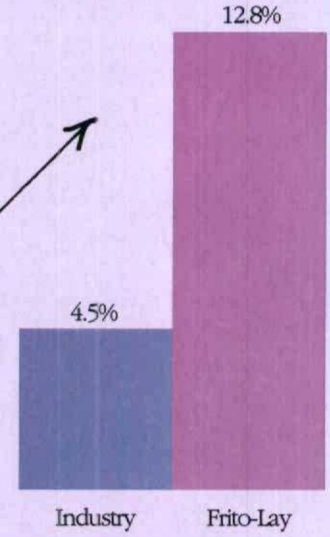
International Snack Chip Industry Retail Sales



Our share of the international market continues to grow.

International retail sales of snack chips totaled about $16 billion. PepsiCo products represented about $4.4 billion, or 28%.

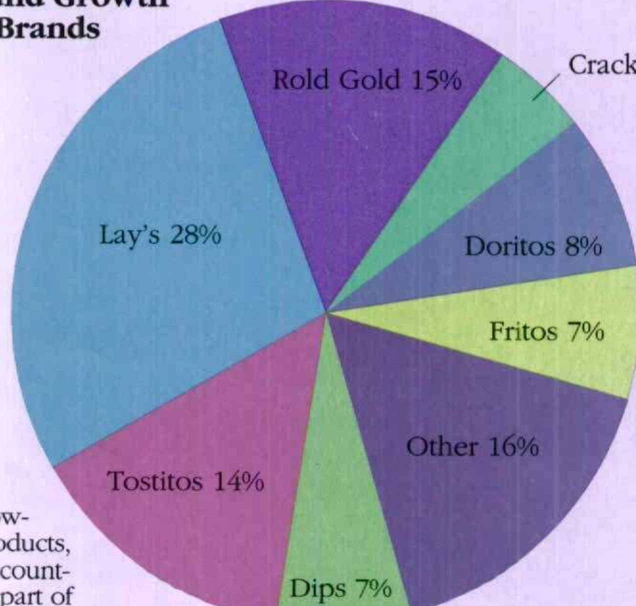
U.S. Snack Chip Pound Sales Growth



Our first year of double-digit volume growth!

Pound sales of Frito-Lay snack chip products in the U.S. grew almost three times as fast as the industry.

Frito-Lay Pound Growth Provided by Brands



Potato chips and low- and reduced-fat products, such as pretzels, accounted for a significant part of pound growth.

double-digit advances at Gamesa and Sabritas and gains in Egypt and Poland.

Worldwide operating profits increased $187 million or 16% to $1.4 billion. The fifty-third week enhanced profits by approximately 2 points with domestic and international operations benefiting by about 3 points and 1 point, respectively.

Domestic profits grew $124 million or 14% to $1.0 billion. This performance reflected strong volume growth, which contributed $340 million. This growth was partially offset by the impact of increased operating and manufacturing costs and an unfavorable sales mix shift to lower-margin packages and products. Increased operating costs were driven by higher selling, distribution and new system costs in addition to increased investment in marketing costs to maintain strong momentum in 1995. Increased capacity costs were partially offset by manufacturing efficiencies. Higher vegetable oil costs were substantially offset by lower packaging and potato costs. Increased promotional price allowances and merchandising support largely offset higher pricing on certain brands. The domestic profit margin remained relatively unchanged at 20.5%.

Though difficult to forecast, there are no material changes expected in potato costs for 1995. However, potato prices have been less predictable in recent years due to weather conditions. Vegetable oil prices are expected to decline slightly from the high 1994 levels while the cost of packaging is expected to increase.

International profits increased $63 million or 22% to $352 million. Higher volumes contributed $95 million to international profit growth, led by Sabritas. The combined impact of the favorable product and package mix shifts, primarily in the U.K. and Latin America, and modestly higher pricing were more than offset by higher direct and administrative costs and an unfavorable currency translation impact from the Mexican peso. Higher direct costs resulted primarily from investment initiatives to build brand equity and enhance distribution channels in Mexico. Profit growth was also dampened by the lapping of last year's noncash credit of $6.1 million resulting from the decision to retain a small snack chip business in Japan previously held for sale. The international profit margin remained relatively unchanged at 10.8%.

The international restructuring charge in 1992 related primarily to actions to consolidate and streamline the Walkers business in the U.K. that were substantially completed during 1994. These actions are estimated to result in annual savings of about $32 million, which continue to be reinvested in the business to strengthen our competitive position. See 1993 vs. 1992 discussion for a further explanation of the 1992 restructuring charge.

Strong double-digit profit growth at Sabritas was driven by higher snack chip and candy volumes. This benefit, combined with a favorable product mix shift to higher-margin snacks and lower manufacturing overhead and administrative costs, more than offset increased potato costs, higher promotional spending and an unfavorable currency translation impact.

Walkers profits advanced at a strong double-digit rate, driven by a favorable product mix shift, reflecting increased sales of higher-margin branded products and the elimination of most lower-margin private label products, increased volumes, lower raw material and packaging costs and lower manufacturing expenses resulting from the 1992 restructuring actions. These benefits offset start-up costs related to the launch of Doritos brand tortilla chips which exceeded incremental profits generated.

Gamesa posted strong profit growth on a relatively small base, reflecting a favorable package mix shift to higher-margin single serve products and lower manufacturing overhead and administrative costs resulting from cost reduction initiatives. These benefits were partially offset by higher product costs, selling and distribution costs associated with the expansion of a direct delivery system and an unfavorable currency translation impact.

The significant devaluation of the Mexican peso in late 1994 and early 1995 did not materially impact 1994 international snack food operating profits. However, because Sabritas and Gamesa combined represented approximately 63% of international snack food operating profits in 1994, the devaluation and its related effects are expected to have an unfavorable impact on 1995 operating profits. Sabritas and Gamesa have begun to increase pricing and reduce costs, including evaluating alternative sourcing of raw materials. Nonetheless, significant uncertainties remain in Mexico and, as a result, it is not possible to quantify the impact. International snack foods has also begun to take actions in several of its other countries in 1995 to help mitigate the impact.

1993 vs. 1992

Worldwide net sales rose $895 million or 15% to $7.0 billion. Comparisons are affected by international acquisitions, consisting principally of the securing of a controlling interest in the Gamesa (Mexico) cookie business and the buyout of the joint venture partner at Hostess Frito-Lay (Canada), both in 1992, as well as the 1993 reconsolidation of a small snack chip business in Japan previously held for sale (collectively, "acquisition activity"). Acquisition activity added $383 million or 7 points to the worldwide sales growth.

Domestic sales grew $415 million or 11% to $4.4 billion. Volume growth contributed $320 million to the domestic increase.

Acquired 1958.
Estimated 1994
Retail Sales: $1.4 Billion.

Acquired 1961.
Estimated 1994
Retail Sales: $283 Million.

Introduced 1966.
Estimated 1994
Retail Sales: $1.5 Billion.

Introduced 1981.
Estimated 1994
Retail Sales: $592 Million.

Sales growth also reflected higher effective pricing through lower package weights, partially offset by a sales mix shift to larger, value-oriented packages and products with lower gross prices. The higher effective pricing was mitigated by increased promotional price allowances to retailers, which are reported as marketing expenses and therefore do not reduce reported sales.

Total domestic pound sales advanced 8%, reflecting double-digit growth in Lay's brand potato chips, Doritos and Tostitos brand tortilla chips and Rold Gold brand pretzels.

International sales rose $480 million or 22% to $2.6 billion. Acquisition activity contributed $383 million or 18 points to the increase. The balance of the sales growth, led by the Sabritas snack chip and candy business in Mexico, reflected higher volumes, which contributed $150 million, and higher pricing. This growth was partially offset by the unfavorable currency translation impact of a stronger U.S. dollar, principally against the British pound.

International systemwide snack chip volume rose 5%, led by double-digit growth in Canada and Turkey and gains at Sabritas and in the U.K. Confectioneries (primarily candy and cookies) account for about 30% of reported international snack food sales. Systemwide confectionery volume grew 7% reflecting gains at Gamesa and double-digit advances at Sabritas.

Worldwide operating profits increased $205 million or 21% to $1.2 billion. Excluding a 1992 international restructuring charge of $40.3 million, profits increased 16%.

The largest component of the 1992 restructuring charge related to actions, many of which were completed in 1993, to consolidate and streamline the Walkers business in the U.K. The costs provided for in these restructuring actions and related savings are principally of a cash nature. As originally projected, these

Introduced 1986.
Estimated 1994
Retail Sales: $101 Million.

Acquired 1989.
Estimated 1994
Retail Sales: $425 Million.
(Sold outside the U.S.)

Introduced 1991.
Estimated 1994
Retail Sales: $242 Million.

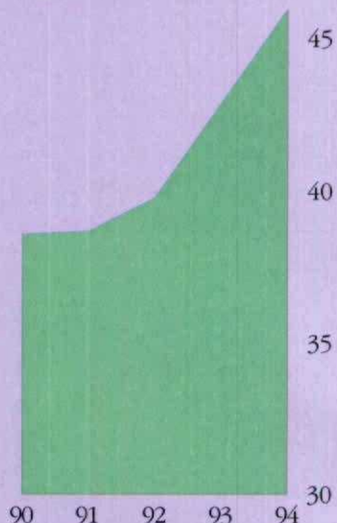
Acquired 1992.
Estimated 1994
Retail Sales: $137 Million.
(Sold outside the U.S.)

Top-Selling Snack Chip Items In U.S. Supermarkets
(Retail Sales $ in Millions)

Eight of the top-10 snack chips were Frito-Lay brands. Tostitos jumped to third place and Rold Gold pretzels joined the list.

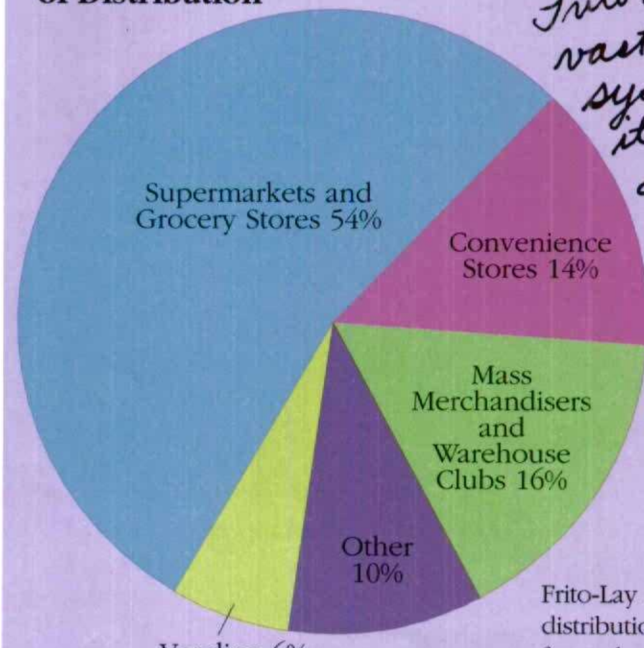
Pretzels grew 19%. We grew nearly three times as fas

Frito-Lay Pound Share Growth In Supermarkets



Although Frito-Lay has been the market leader for decades, product initiatives have accelerated volume growth, resulting in share increases over the last three years.

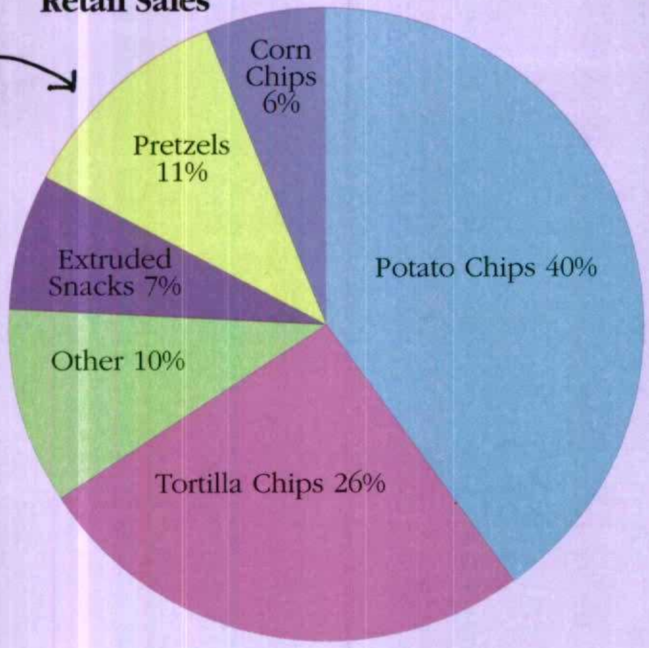
U.S. Snack Chip Channels of Distribution



Frito-Lay's vast distribution system makes it strong in all channel

Frito-Lay sales in all major distribution channels grew faster than industry rates.

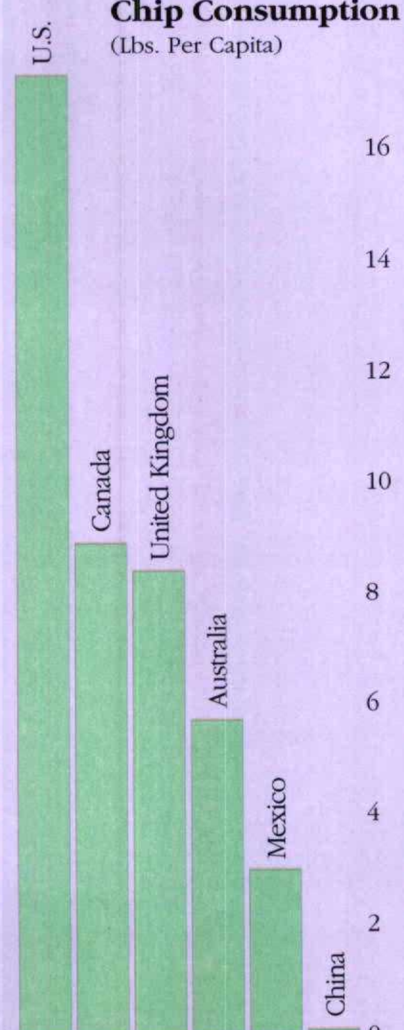
U.S. Snack Chip Categories Retail Sales



Frito-Lay holds the leading market share in all major snack chip categories.

International Snack Chip Consumption

(Lbs. Per Capita)



Low per capita consumption of snack chips around the world means opportunity.

actions, when fully implemented, are currently expected to result in annual savings of about $35 million, providing additional resources for reinvestment in the business to strengthen our competitive position.

Domestic profits rose $125 million or 16% to $901 million. This performance reflected volume growth, which contributed $165 million to domestic profits, and a $24 million reduction in retiree health care expense due to 1993 plan amendments described in Note 12. These benefits were partially offset by increased manufacturing costs and other operating expenses that exceeded the higher effective pricing. The unfavorable sales mix shift also depressed profit growth. The higher manufacturing costs reflected a temporary increase in potato costs of approximately $25 million resulting from the effects of extreme weather conditions in March on the potato crop in the Southern U.S. The domestic profit margin rose 1 point to 20.6%.

Though difficult to forecast, higher prices in 1994 for vegetable oil, resulting from the past summer's flooding in the Midwestern U.S., were expected to be partially offset by a decline in potato prices from 1993 levels.

International profits grew $80 million or 38% to $289 million. Excluding the 1992 restructuring charge, profits rose $39 million or 16%. The profit performance was driven by Sabritas and reflected higher volumes, which contributed $85 million to profit growth, and a $6.1 million credit resulting from the decision to retain the business in Japan. This growth was partially offset by operating cost increases, net of savings from the restructuring actions announced in 1992, that exceeded higher pricing, and unfavorable currency translation impacts. The international profit margin, excluding the 1992 restructuring charge, declined one-half point to 10.9%. Excluding the impact of lower margin acquisitions, the profit margin increased over 1 point.

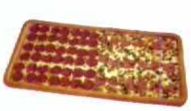
Double-digit profit growth at Sabritas was driven by higher snack chip and candy volumes. Increased manufacturing and other operating expenses were partially offset by higher pricing.

Profits in the U.K. declined due to an unfavorable currency translation impact. Double-digit profit growth on a local currency basis reflected the cost savings from the 1992 restructuring actions, volume gains and a sales mix shift to higher margin products, partially offset by increased manufacturing costs. Profit growth was also depressed by the effect of a 1992 credit arising from the final settlement of pension assets related to the 1989 acquisition of the U.K. operations. A decline in profits for Poland reflected increased manufacturing costs and lower pricing.

Gamesa and Hostess Frito-Lay, both acquired midyear 1992, posted volume-driven profit growth for the comparable period since acquisition; i.e., the second half of 1993 vs. 1992. Acquisition activity, which includes only the results for the first half of 1993 for Gamesa and Hostess Frito-Lay, did not, however, significantly affect the full year international profit comparison, as losses at Gamesa offset profits contributed by Hostess Frito-Lay and other smaller acquisitions. Gamesa posted a profit for the full year despite the first half loss.

Restaurants

Acquired 1977.
Estimated 1994
System Retail Sales:
$6.9 Billion.



Acquired 1978.
Estimated 1994
System Retail Sales:
$4.5 Billion.

Chairman's Perspective

Even though sales reached a record $10.5 billion, our restaurants had a tough year. Combined profits at Taco Bell and KFC were up nearly $30 million, or 7%, but weak results at Pizza Hut caused overall profits to drop some $48 million, or 6%.

There were really two reasons for the decline. First, we were less successful than usual at introducing the kind of big new products that really excite consumers and attract lots of them to our restaurants. Second, with beef prices unusually low, the hamburger chains were able to keep their prices down. That led to pretty fierce price competition across most of the quick service restaurant industry.

Keep in mind that over the last 15 years, revenue and operating profits of our restaurant businesses have grown even faster than either snacks or beverages. To restore that kind of healthy growth, we've already taken some important steps.

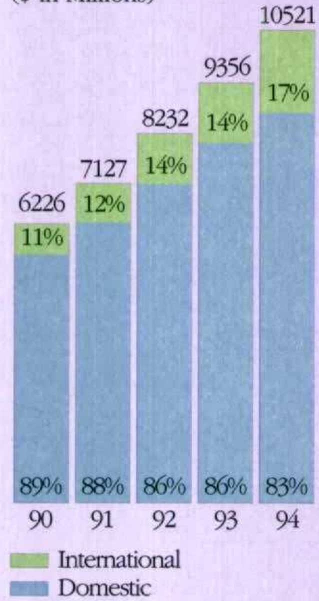
First, we put our restaurants under the leadership of our most senior operating executive, Roger Enrico. At the same time, we combined our international restaurant businesses – which are smaller than their U.S. counterparts – for greater efficiency.

We also have a strong lineup of new products to be introduced. At Pizza Hut, there's Stuffed Crust Pizza, which has cheese inside the crust. Maybe most interesting is Taco Bell's new Border Lights line of reduced-fat tacos, burritos and other products. This is the first time any quick service restaurant chain has offered reduced-fat products that don't compromise on taste.

And KFC continues to attract new customers with the biggest new product in its history – Colonel's Rotisserie Gold chicken which was introduced last year. This non-fried addition to KFC's menu, along with the popular Mega Meal promotions, is giving KFC customers more value

Restaurants Net Sales

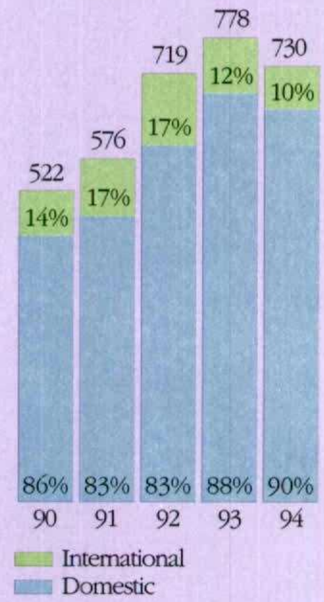
% of Total Segment Net Sales
($ in Millions)



Five-year compounded growth of 15%.

Restaurants Operating Profits

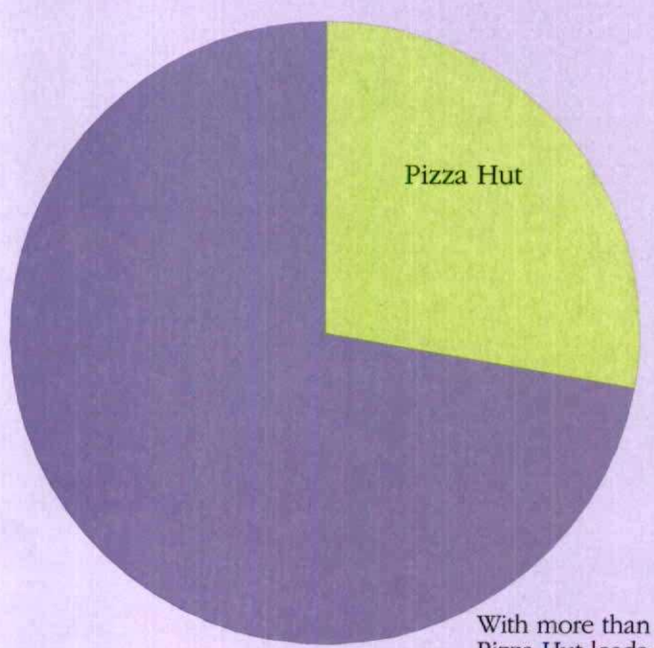
% of Total Segment Operating Profits
($ in Millions)



Earnings growth compounded at 11% over 5 years.

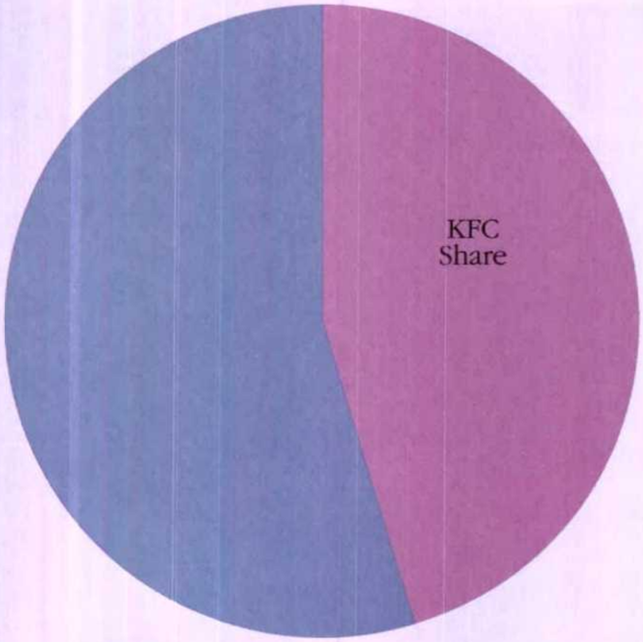
(Excluding 1989 unusual items.)

U.S. Pizza Quick Service Restaurant Segment



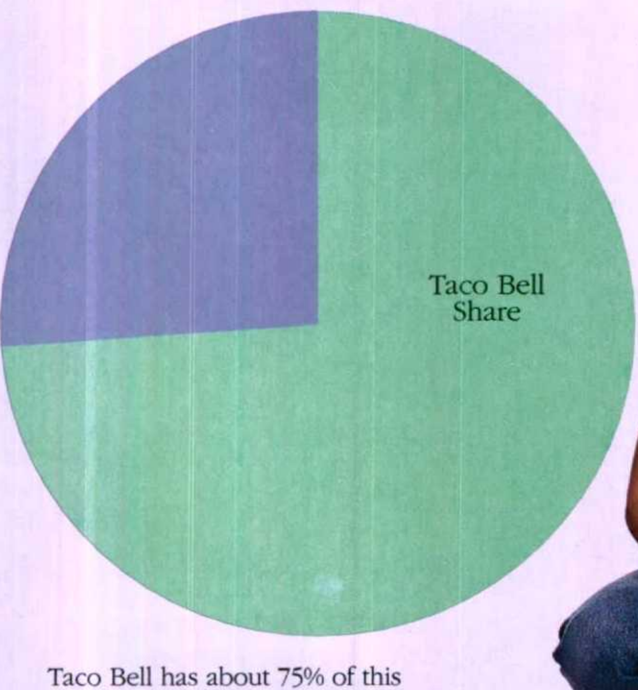
With more than one-quarter, Pizza Hut leads this $18.5 billion segment.

U.S. Chicken Quick Service Restaurant Segment



KFC has nearly half of this $7.7 billion segment.

U.S. Mexican-Style Quick Service Restaurant Segment



Taco Bell has about 75% of this $5.7 billion restaurant segment.

and variety than ever before.

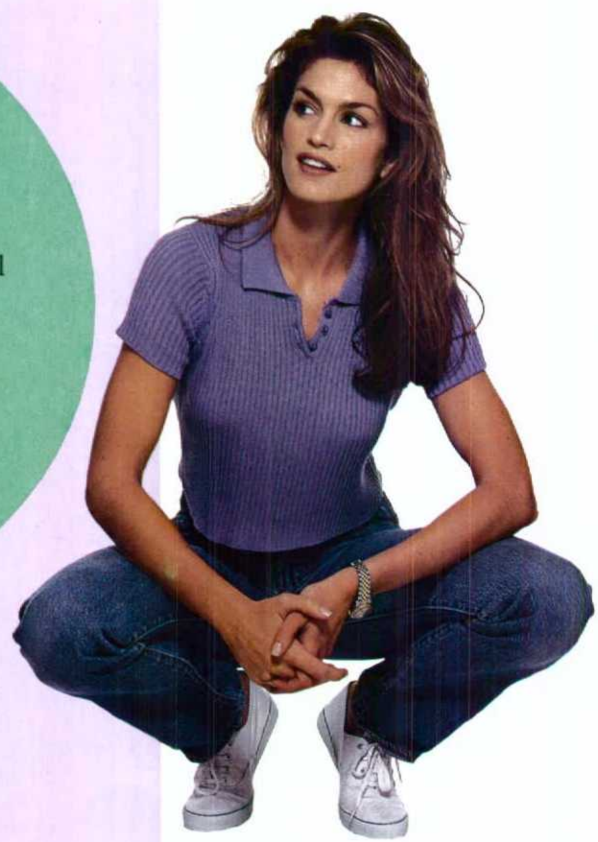
You'll find more details on our restaurant performance in Management's Analysis.

Management's Analysis

See Management's Analysis – Overview on page 24 for background information and discussion of the fifty-third week in 1994 and Business Segments on page 27 for detailed results. Net sales and operating profits within this discussion include the impact of the fifty-third week while same store sales growth has been adjusted to exclude its impact. Also, for purposes of this analysis, the net sales and operating profits of the franchisee operations of PFS, PepsiCo's restaurant distribution operation, have been allocated to each restaurant chain.

1994 vs. 1993

Worldwide net sales increased $1.2 billion or 12% to $10.5 billion. The fifty-third week contributed approximately 1 point to the sales growth with domestic and international operations benefiting by about 1 point and 2 points, respectively. The sales growth was primarily due to $934 million from additional units (units constructed and acquired, principally from franchisees, net of units closed and sold) and volume growth of $185 million. Domestic sales increased $668 million or 8% to $8.7 billion and international sales rose $497 million or 37% to $1.8 billion.



Worldwide operating profits declined $48 million or 6% to $730 million. The fifty-third week mitigated the profit decline by approximately 3 points with domestic and international operations benefiting at the same rate. The decline reflected increased administrative and support costs, including spending for strategic initiatives and aggressive international unit development, higher store operating costs and a sales mix shift to lower-margin products. These were partially offset by additional units that contributed $73 million, lower raw material costs and higher franchise royalty revenues. Volume growth of $30 million was offset by lower net prices. Domestic profits declined $26 million or 4% to $659 million. International profits fell $22 million or 23% to $71 million, which included a $7 million charge to consolidate the headquarters operations for the three international restaurant businesses into one.

The significant devaluation of the Mexican peso in late 1994 and early 1995 did not materially impact 1994 international restaurant operating profits. Results from Mexico constitute an immaterial portion of international restaurant profits. However, the devaluation and its related effects are expected to have an unfavorable impact on 1995 results. The operations in Mexico have begun to increase pricing and reduce costs, including evaluating alternative sourcing of raw materials. In addition, further expansion of company-owned units has been temporarily halted pending stabilization of the economy. Nonetheless, significant uncertainties remain in Mexico and, as a result, it is not possible to quantify the impact.

Late in 1994, Roger Enrico was named Chairman, PepsiCo Worldwide Restaurants. He is cur-

rently evaluating several options to improve their operating results and returns on our total restaurant investments. Examples of options under consideration to improve investment returns include a reduced company share of future new restaurant development and sale of some existing company restaurants to franchisees. The cash generated from these options would most likely be reinvested in our nonrestaurant businesses or used to repurchase PepsiCo stock. We expect to begin making decisions on these and other options during 1995 as we continue to refine our restaurant operating strategies.

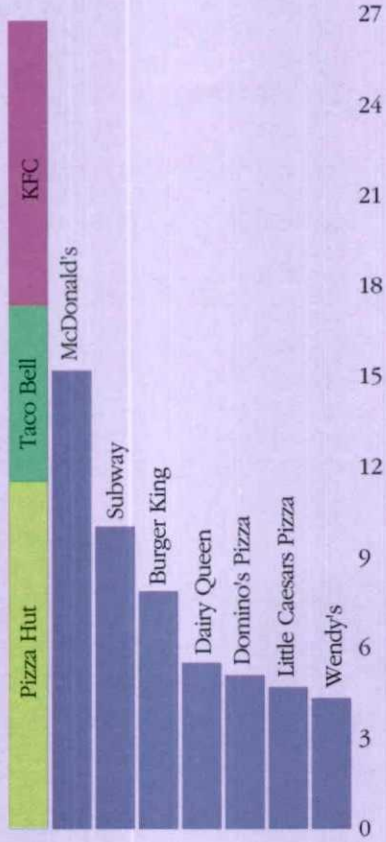
Pizza Hut

Worldwide sales increased $346 million or 8% to $4.5 billion driven by international operations. However, the domestic operations continue to represent the major portion of worldwide Pizza Hut. The worldwide sales increase was driven by additional units that contributed $460 million, including $80 million from the domestic acquisition of D'Angelo Sandwich Shops late in 1993. This benefit was partially offset by lower volumes of $60 million, reflecting domestic volume declines that exceeded international volume gains, and lower net pricing. The domestic volume declines primarily reflected lapping the successful national roll-out of Bigfoot Pizza in 1993.

Same store sales for domestic company-owned units declined 6%, though volume decreased at a slightly slower rate. The decline was primarily in the delivery and carryout channels, reflecting the lapping of the national roll-out of Bigfoot Pizza in 1993.

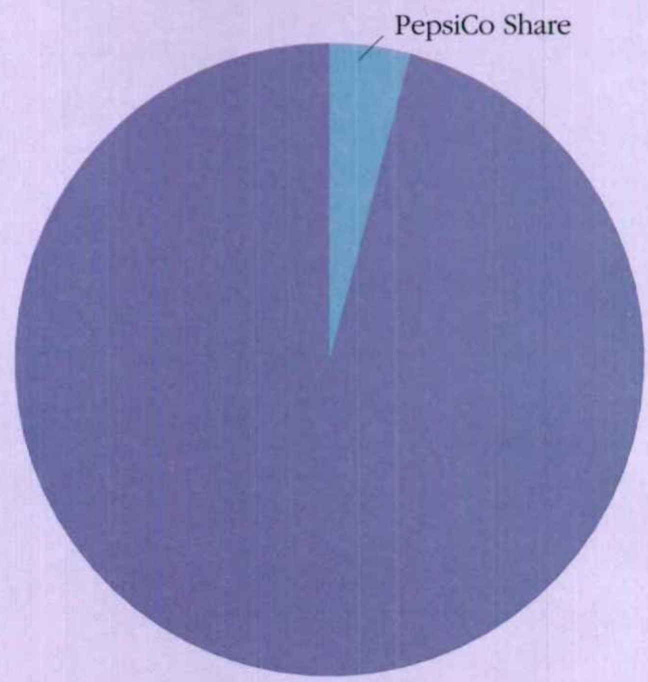
Worldwide profits decreased $77 million or 21% to $295 million. This decline reflected the lower net pricing due to value-oriented promotions, increased administrative and support spending, primarily to develop international markets, lower volumes of $35 million, reflecting the domestic volume declines partially offset by the international volume ad-

Largest Worldwide Restaurant Systems
(Units in Thousands)



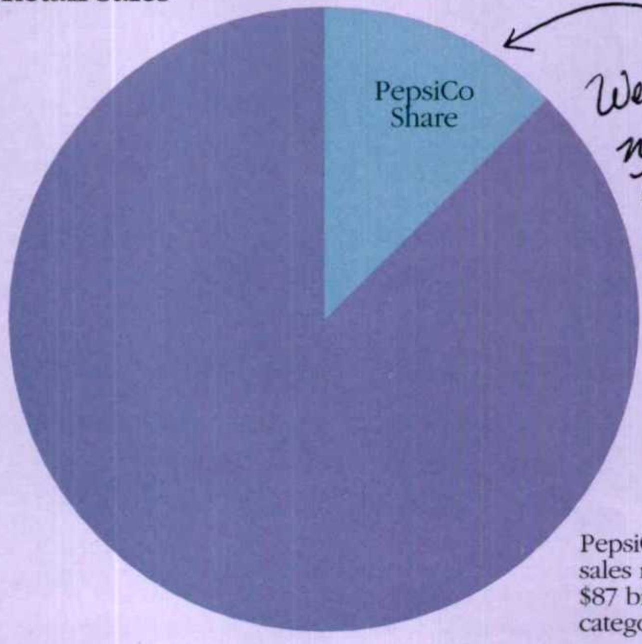
Combined Pizza Hut, Taco Bell and KFC units make PepsiCo the largest restaurant system in the world.

U.S. Foodservice Industry Retail Sales



PepsiCo U.S. restaurant system sales represent about 5% of the total $277 billion foodservice industry.

U.S. Quick Service Restaurant Retail Sales



We're #2 in sales — nearly as big as McDonald's and almost twice as big as Burger King.

PepsiCo U.S. restaurant system sales represent nearly 15% of the $87 billion quick service restaurant category.

vances, and higher store operating costs. These were partially offset by additional units that contributed $27 million, increased franchise royalty revenues and favorable food costs, as slightly higher cheese prices were more than offset by favorable meat costs. Though difficult to forecast, these food costs are expected to decrease in 1995. The profit decline was also mitigated by a favorable impact of $14 million from extending depreciable lives on certain domestic delivery assets and the absence of last year's start-up costs associated with Bigfoot Pizza. The worldwide profit margin declined more than 2 points to 6.6%.

International sales posted strong double-digit growth driven by additional units, particularly in Korea, Brazil, Canada, Mexico and Spain. Volume gains were partially offset by lower net pricing. International profits declined sharply, reflecting increased start-up and administrative costs to support aggressive development strategies, partially offset by additional units and increased franchise royalty revenues. International profits also reflected Pizza Hut's share of the international restaurants' consolidation charge.

Strong gains in Korea, the largest profit market, primarily reflected additional units and strong volume growth. Profits declined in the largest sales markets, Australia and Canada. Additionally, significant start-up losses were experienced in the new Poland operations.

Taco Bell

Worldwide sales increased $500 million or 17% to $3.4 billion. The domestic operations represent substantially all of worldwide Taco Bell. The worldwide sales growth was led by additional Taco Bell units which contributed $281 million and volume gains that provided $125 million, half of which was the result of food and paper sales to additional franchisees. The sales growth also reflected $84 million due to the acquisition of Chevys in the third quarter of 1993 and new Chevys units. Same store sales for domestic company-owned Taco Bell units grew 2%, though volume grew at a slower rate.

Worldwide profits rose $17 million or 7% to $270 million. The profit growth reflected lower food costs, additional units which contributed $24 million, volume gains of $20 million, higher soft drink prices and increased franchise royalty revenues. These benefits were partially offset by higher store operating costs, driven by increased labor costs, an unfavorable mix shift to lower-margin products and higher headquarters administrative expenses. Profit growth was restrained by increased losses posted by Hot 'n Now. Taco Bell plans to transition Hot 'n Now during 1995 from primarily a company-operated to a licensee/franchisee-operated business. This is expected to significantly reduce Hot 'n Now's operating losses in 1995. Taco Bell worldwide profit margin fell almost 1 point to 7.9%.

International operations posted strong double-digit sales growth, principally due to additional units. Volume gains were largely offset by an unfavorable currency translation impact of a weaker Canadian dollar. International operating results improved slightly, although still resulting in a modest loss in 1994, as volume gains were partially offset by start-up losses of new units.

KFC

Worldwide sales rose $319 million or 14% to $2.6 billion. The sales growth reflected additional units that contributed $193 million and volume gains of $120 million.

Worldwide profits increased $12 million or 8% to $165 million, reflecting the absence of last year's start-up costs associated with the Colonel's Rotisserie Gold roasted chicken product and accompanying side items (collectively, "CRG"). Higher volumes of $40 million, additional units that contributed $22 million and increased franchise royalty revenues were largely offset by a sales mix shift to lower-margin products, higher field and headquarters administrative and support costs and lower net pricing. The worldwide profit margin declined almost one-half point to 6.2% due to international operations.

The improvement in KFC's domestic sales reflected an increase in volume, as gains from CRG and the value-oriented Mega Meal were partially offset by lower volumes of existing products, and higher net pricing. Same store sales advanced 2% from last year, though volumes grew at a slightly slower rate.

Domestic profits grew at a double-digit rate in 1994. Operating profit benefited from the absence of last year's start-up costs associated with CRG. Higher net pricing and volume gains were offset by a mix shift to the lower-margin CRG and Mega Meal offerings. Reduced store operating costs, including lower product costs, primarily due to reformulation of side items late in the second quarter, and the 1994 impact of favorable actuarial adjustments to prior year workers' compensation claim accruals, were partially offset by increased administrative costs. Profit growth was depressed by lapping last year's $3.3 million favorable adjustment to a 1991 reorganization accrual.

Double-digit international sales growth was led by the combined impact of acquired units in the U.K. and new units in Mexico, Australia and Canada. The balance of the sales growth reflected volume gains due, in part, to new value-priced offerings, partially offset by the related lower net pricing.

International profit growth was modest. Excluding KFC's share of the international restaurants' consolidation charge, strong single-digit international operating profit growth reflected gains from additional units and higher franchise royalty revenues, partially offset by increased store operating costs and higher field administrative and support costs. The volume gains were offset by the lower net pricing.

Acquired 1986.
Estimated 1994
System Retail Sales:
$7.1 Billion.

Restaurants

Acquired 1990.

Formed Joint Venture 1992.

Acquired 1993.

Acquired 1993.

Acquired 1993.

Profits increased in Australia, the largest market, and New Zealand. Mexico's profits declined sharply and Canada reported significantly lower results.

International sales represented about 40% of worldwide sales in 1994 and 30% in 1993. International profits represented about 40% of worldwide profits in 1994 and 1993.

1993 vs. 1992

Worldwide net sales rose $1.1 billion or 14% to $9.4 billion. This advance was driven by additional units, which contributed $913 million. Volume growth, led by domestic Pizza Hut, provided $175 million of the sales advance. Domestic sales grew $910 million or 13% to $8.0 billion and international sales rose $213 million or 19% to $1.4 billion. The unfavorable currency translation impact of a stronger U.S. dollar depressed international sales growth.

Worldwide operating profits grew $60 million or 8% to $778 million. Additional units provided $89 million and volume growth contributed $75 million to the profit increase. Increased operating costs were partially offset by modestly higher net pricing (principally at domestic KFC) and increased franchise royalty revenues. Domestic profits rose $87 million or 15% to $685 million, while international profits declined $27 million or 23% to $93 million reflecting weakness in Australia.

Pizza Hut

Worldwide sales increased $525 million or 15% to $4.2 billion. The domestic operations represent the major portion of worldwide Pizza Hut. Additional units contributed $392 million to the worldwide sales increase. Volume growth provided $140 million, driven by strong domestic gains resulting from the national roll-out of the new value-priced Bigfoot Pizza in the second quarter.

Same store sales advanced 5% though volume growth was slightly higher. This performance reflected growth in all three distribution channels: delivery, carryout and dine-in. Improved sales in both delivery and carryout were driven by the success of Bigfoot. The growth in dine-in reflected the impact of the third quarter 1992 roll-out of the all-you-can-eat pizza and salad lunch buffet. Results late in 1993 indicated a softening of same store sales trends in dine-in due primarily to lapping last year's roll-out of the lunch buffet.

Worldwide profits advanced $37 million or 11% to $372 million. This profit performance reflected $55 million from volume growth, $41 million from additional units, increased franchise royalty revenues and higher international net pricing. These benefits were partially offset by increased store operating costs as well as administrative and support expenses, which included the start-up costs associated with Bigfoot. Bigfoot contributed significantly to U.S. profit growth as incremental volume, net of estimated cannibalization of other products, more than offset the effect of the product's lower margin and the start-up costs. Prices for cheese have fluctuated significantly in recent years. Lower cheese costs in 1993 were offset by higher meat and produce costs. The effect of these increasing costs was exacerbated by a sales mix shift to more heavily-topped pizzas and the lunch buffet. Though difficult to forecast, commodity costs (led by cheese) were expected to increase. The worldwide profit margin declined almost one-half point to 9.0% due to lower international profits.

International sales posted double-digit growth driven by additional units in several markets, including Canada, Belgium, Australia, Spain and Puerto Rico. This benefit, combined with higher net pricing and increased franchise royalty revenues, was partially offset by an unfavorable currency translation impact, principally in Australia and Canada. International profits declined slightly, primarily reflecting an unfavorable currency translation impact. The contributions of the additional units, higher net pricing and increased franchise royalty revenues were largely offset by higher operating expenses, principally development and support costs.

In the largest sales markets, profits declined in Australia, but rose in Canada. Australia's performance reflected lower volumes, despite introduction of Bigfoot Pizza in the third quarter, and intense competitive pricing activity. To provide even greater value and stimulate volume growth in 1994, a more heavily-topped Bigfoot was relaunched late in 1993 and a new value-oriented menu was introduced. Canada's profit growth reflected higher net pricing, additional units and volume growth. A product similar to Bigfoot, launched in the third quarter, contributed to improved results.

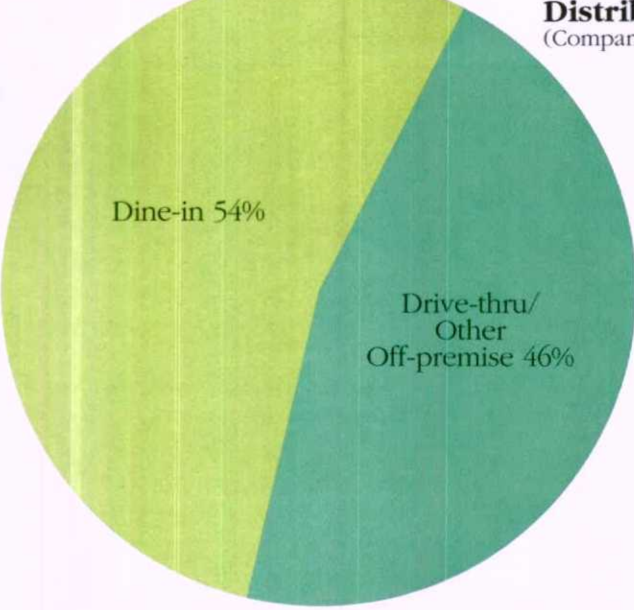
Taco Bell

Worldwide sales grew $441 million or 18% to $2.9 billion. The domestic operations represent substantially all of worldwide Taco Bell. The worldwide sales increase was driven by additional units, which contributed $364 million, including $78 million from additional Hot 'n Now units and the acquired Chevys units. The balance of the sales growth reflected the impact of higher store volumes, partially offset by lower distribution sales by PFS caused by the late 1992/early 1993 switch to another supplier by certain franchisees. Same store sales for Taco Bell units rose 6% due to volume growth.

Worldwide profits increased $39 million or 18% to $253 million. Additional units contributed $35 million and volume growth provided $25 million. These benefits, combined with higher franchise royalty revenues and a small decline in food and promotional costs, were partially offset by increased headquarters administrative and support expenses. Profit growth was depressed by increased losses at Hot 'n Now, reflecting costs associated with a decision to not develop certain

U.S. Taco Bell Sales By Distribution Channel

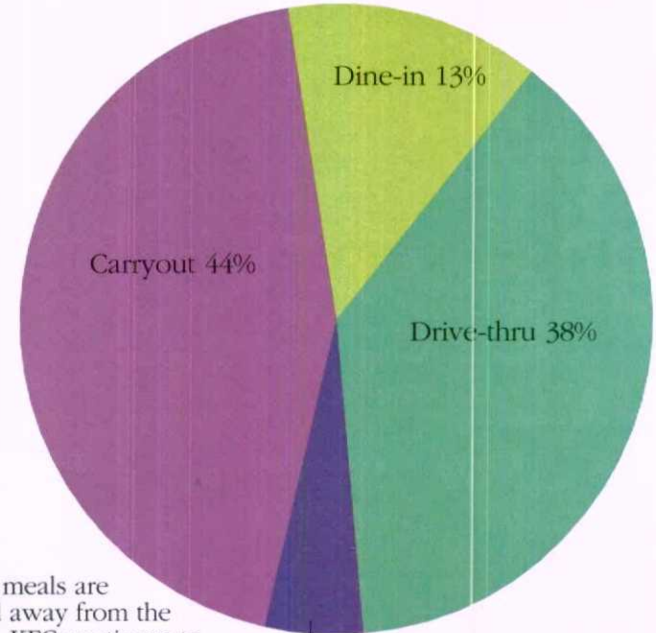
(Company-owned units)



Taco Bell sales are about evenly split between dine-in and off-premise.

U.S. KFC Sales By Distribution Channel

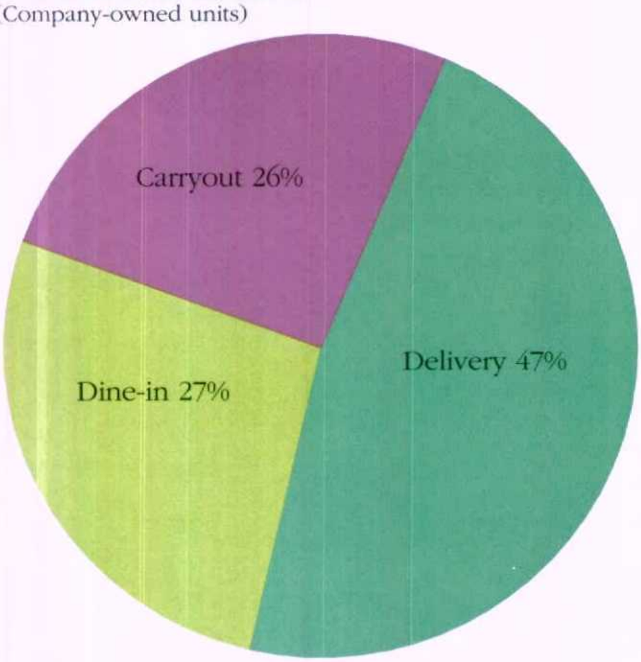
(Company-owned units)



Most KFC meals are consumed away from the restaurant. KFC continues to expand home delivery.

U.S. Pizza Hut Sales By Distribution Channel

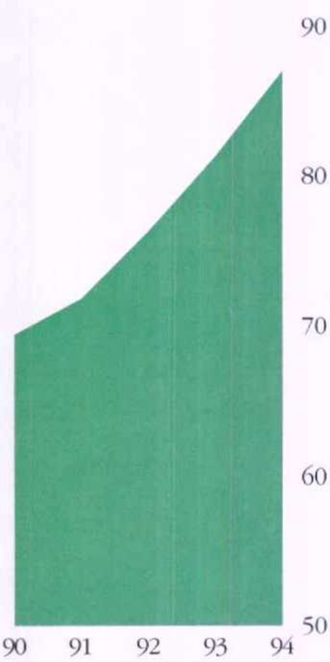
(Company-owned units)



Pizza Hut's delivery business, started about a decade ago, now accounts for almost half of its pizza sales.

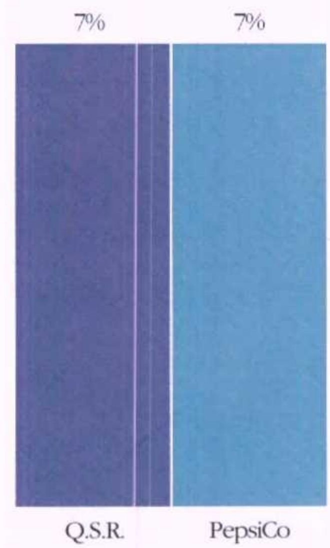
U.S. Quick Service Restaurant Sales

($ in Billions)



The U.S. quick service restaurant segment continues to grow with sales compounding at 5.8% annually over the past five years.

Sales Growth for U.S. Quick Service Restaurants vs. PepsiCo U.S. System



PepsiCo U.S. restaurant system sales kept pace with the industry, which had its fastest growth in five years.

Restaurant Unit Growth

Number of System Units Worldwide (Year-end 1989-1994)

Year	Pizza Hut	Taco Bell	KFC	Total
1989	7,502	3,125	7,948	18,575
1990	8,220	3,349	8,187	19,756
1991	8,837	3,670	8,480	20,987
1992	9,454	4,153	8,729	22,336
1993	10,433	4,921	9,033	24,387
1994	11,546	5,846	9,407	26,799
Five-Year Compounded Annual Growth Rate	9.0%	13.3%	3.4%	7.6%

Number of System Units Worldwide (Year-end 1994)

	Pizza Hut	Taco Bell	KFC	Total
United States				
Company	5,249	3,232	2,039	10,520
Franchised	2,708	1,523	3,007	7,238
Licensed	661	929	103	1,693
Total U.S.	8,618	5,684	5,149	19,451
International				
Company	1,035	93	1,094	2,222
Joint Venture	466	–	397	863
Franchised/ Licensed	1,427	69	2,767	4,263
Total International	2,928	162	4,258	7,348
Total Worldwide	11,546	5,846	9,407	26,799

Unit totals include 900 kiosks (primarily Pizza Hut) and 1,452 other special concepts (mostly carts and express units), as well as the following U.S. chains: D'Angelo Sandwich Shops (Pizza Hut)–148 company and 49 franchised, East Side Mario's (Pizza Hut)–4 company and 21 franchised, Hot 'n Now (Taco Bell)–135 company and 43 franchised and Chevys (Taco Bell)–53 company. Unit totals do not include California Pizza Kitchen–66 company, 2 joint venture and 2 franchised, all U.S.

Restaurant Sales Growth

(Compounded annual growth rates)

Average Domestic System Sales Per Unit (Thousands)

	1989	1990	1991	1992	1993	1994	5-Year % Growth
PH	$570	$607	$613	$612	$651	$634	2.2
TB	686	771	814	866	925	953	6.8
KFC	607	650	675	684	685	706	3.1

Excludes sales from kiosks and other special concepts, D'Angelo Sandwich Shops, East Side Mario's, Hot 'n Now, Chevys and California Pizza Kitchen.

Worldwide System Sales 1989-1994 (Billions)

	1989	1990	1991	1992	1993	1994	5-Year % Growth
PH	$ 4.1	$ 4.9	$ 5.3	$ 5.7	$ 6.4	$ 6.9	11.0
TB	2.1	2.4	2.8	3.3	3.9	4.5	16.5
KFC	5.4	5.8	6.2	6.7	7.1	7.1	5.6
Total	$11.6	$13.1	$14.3	$15.7	$17.4	$18.5	9.8

Worldwide System Sales 1994 (Billions)

	Pizza Hut	Taco Bell	KFC	Total
Domestic	$5.0	$4.4	$3.5	$12.9
International	1.9	.1	3.6	5.6
Total	$6.9	$4.5	$7.1	$18.5

Includes sales from D'Angelo Sandwich Shops, East Side Mario's, Hot 'n Now and Chevys.

sites as well as losses at new units. The worldwide profit margin was even at 8.7%. Profits in 1994 were expected to be aided by a late 1993 price increase for certain soft drink sizes.

International operations posted double-digit sales growth and a small loss compared to a small profit in 1992, reflecting increased development and support costs, as well as costs associated with a store closure in the U.K.

KFC

Worldwide sales rose $157 million or 7% to $2.3 billion. Additional units, principally in international markets, contributed $158 million to sales growth. Higher domestic net pricing and increased franchise royalty revenues also aided sales growth. Sales growth was depressed by an unfavorable currency translation impact as well as lower store volumes.

Worldwide profits decreased $16 million or 9% to $153 million as lower international profits were partially offset by an increase domestically. The worldwide profit decline reflected higher store operating costs, which included start-up costs associated with the roll-out of the new roasted chicken products in the U.S. and Australia, and increased international administrative and support expenses, partially offset by the higher net pricing and increased franchise royalty revenues. The contribution from additional units of $13 million was partially offset by the impact of lower volumes. The worldwide profit margin fell over 1 point to 6.6% due to lower international profits.

Improvement in domestic sales reflected additional units and higher net pricing, principally from a lower level of price discounting, partially offset by lower store volumes. Same store sales were about even with last year. The introduction of CRG late in the year contributed significantly to strong same store sales growth in the fourth quarter of 1993.

Domestic profits grew at a high single-digit rate reflecting the higher net pricing that exceeded increased store operating costs. This benefit, combined with the impact of additional units and higher franchise royalty revenues, was partially offset by the effect of lower volumes. The profit performance also reflected a favorable adjustment of the 1991 restructuring accrual. For the year, the benefits from incremental volume of CRG, net of estimated cannibalization of other products, were more than offset by the effect of CRG's lower margin and the start-up expenses for the roll-out. However, CRG contributed significantly to profit growth in the fourth quarter of 1993.

International sales posted double-digit growth, driven by additional units in Singapore, Canada and Mexico, partially offset by an unfavorable currency translation impact. A double-digit decline in profits was caused principally by Australia, the largest sales market. Increased administrative and support costs also contributed to the profit decline.

Australia's performance was depressed by the start-up expenses associated with its new value-priced TenderRoast chicken product, the combined impact of the product's lower margin and its greater than expected cannibalization of other higher-margin products and an overall decline in volumes. Initiatives were underway to drive incremental sales of TenderRoast. Canada, the next largest sales market, posted a relatively modest decline in profits reflecting lower volumes and competitive pricing activity. To improve results in 1994 for both Australia and Canada, KFC introduced new value-oriented menus and rolled out delivery in certain markets.

International sales represented about 30% of worldwide sales in 1993 and 1992. International profits represented about 40% of worldwide profits in 1993 and 50% in 1992.

Financial Review

Contents

Management's Analysis – Overview

To enhance understanding of PepsiCo's financial performance, the various components of Management's Analysis are presented near the pertinent financial statements. Accordingly, in addition to this overview, separate analyses of the results of operations, financial condition and cash flows appear on pages 31, 33 and 35, respectively. Also, the analysis of each industry segment's net sales and operating profit performance begins on pages 5, 11 and 17.

Marketplace Actions

PepsiCo's domestic and international businesses operate in markets that are highly competitive and subject to global and local economic conditions including inflation, commodity price and currency fluctuations and governmental actions. In Mexico, for example, our businesses have benefited in past years from improving conditions. Conversely, the significant devaluation of the Mexican peso at the end of 1994 and continuing into 1995 will not only negatively impact reported earnings from Mexico due to translation, but is expected to create a much less favorable economic climate in the country. Other examples include risks associated with political instability and its related dislocations in countries where PepsiCo operates and possible employee benefit or minimum wage legislation in the U.S. and elsewhere, increasing the cost of providing benefits and compensation to employees. PepsiCo's operating and investing strategies are designed, where possible, to mitigate these factors through aggressive actions on several fronts including: (a) enhancing the appeal and value of its products through brand promotion, product innovation, quality improvement and prudent pricing actions; (b) providing better service to customers; (c) increasing worldwide availability of its products; (d) acquiring businesses and forming alliances to increase market presence and utilize resources more efficiently; and (e) containing costs through efficient and effective purchasing, manufacturing, distribution and administrative processes.

Restructurings

Restructuring actions realign resources for more efficient and effective execution of operating strategies. As a result, PepsiCo continually considers and executes restructuring actions that vary in size and impact, for example, from a minor sales force reorganization at a local facility to a significant organizational and process redesign affecting an entire operating division. The resulting cost savings or profits from increased sales are reinvested in the business to increase PepsiCo's shareholder value. Major restructuring actions announced in 1992 and now underway or completed in the beverage and international snack food segments resulted in charges totaling $193.5 million ($128.5 million after-tax or $0.16 per share). In 1994, $28.3 million ($17.4 million after-tax or $0.02 per share) of the 1992 restructuring accruals were reversed into income, primarily reflecting refinements of the original domestic beverage accrual estimate and management's decision to reduce the scope of the domestic beverage restructuring. The majority of the amount reversed into income was offset by additional charges in 1994 for new actions. The remaining accruals for the 1992 restructuring actions of $39 million outstanding at year-end 1994 represent expected cash payments of which $25 million, $11 million and $3 million are expected to be paid in 1995, 1996 and 1997, respectively.

Annual cost savings from the 1992 restructuring actions, when fully implemented, are expected to be approximately $75 million primarily from reduced employee and facility costs. In addition, while difficult to measure, the domestic beverage segment is also expected to benefit by an estimated $90 million annually from centralization of purchasing activities and incremental volume and pricing from improvements in administrative and business processes. The combined gross benefits realized in 1994 from the 1992 restructuring actions are estimated to be approximately $50 million. These benefits are expected to increase annually until fully realized in 1998. See Notes 2 and 16 for additional detail related to the 1992 restructuring charges. See Management's Analysis of beverage and snack food performance on pages 5 and 11, respectively, for a discussion of the 1992 restructuring charges and related anticipated benefits.

Derivatives

PepsiCo uses derivative instruments primarily to reduce borrowing costs and hedge future purchases of certain commodities. PepsiCo's policy is to not use derivative instruments for speculative purposes and has procedures in place to monitor and control their use. PepsiCo's credit risk related to derivatives is considered low. Financing-related derivative contracts are only entered into with strong creditworthy counterparties and are generally of relatively short duration. Purchases of commodities are hedged with commodity futures contracts traded on national exchanges.

Reduce Borrowing Costs: PepsiCo enters into interest rate and foreign currency swaps to effectively change the interest rate and currency of specific debt issuances with the objective of reducing borrowing costs. These swaps are generally entered into concurrently with the issuance of the debt they are intended to modify. The notional value, payment and maturity dates of the swaps match the principal, interest payment dates and maturity dates of the related debt. Accordingly, any market impact (risk or opportunity) associated with these swaps is fully offset by the opposite market impact on the related debt. See Notes 9 and 10 for additional details regarding interest rate and currency swaps.

Hedge Commodity Costs: PepsiCo hedges future commodity purchases when we believe it will result in lower net costs. The futures contracts entered into do not exceed expected usage nor do they generally extend beyond one year. While PepsiCo expects to generate lower commodity costs over time by entering into these futures contracts, it is possible that the commodity costs will be higher than if futures contracts were not entered into. PepsiCo believes it has the ability to raise prices if commodity prices increase; however, it expects to do so only if the increase is other than temporary and it would not place PepsiCo at a competitive disadvantage. Open contracts at year-end 1994 and gains and losses realized in 1994 or deferred at year-end were not significant.

Amortization of Intangible Assets

	Growth Rate [a] 1989 - 1994	1994	1993	1992
Beverages	7.6%	$ 164.8	$ 157.4	$ 137.6
Snack Foods	17.8%	42.0	40.9	40.5
Restaurants	28.9%	105.4	105.4	87.8
	14.0%	$ 312.2	$ 303.7	$ 265.9

	Growth Rate [a] 1989 - 1994	1994	1993	1992
By Restaurant Chain:				
Pizza Hut	31.6%	$ 41.5	$ 44.7	$ 33.3
Taco Bell	22.9%	26.9	23.0	16.4
KFC	31.2%	37.0	37.7	38.1
	28.9%	$ 105.4	$ 105.4	$ 87.8

Depreciation Expense

	Growth Rate [a] 1989 - 1994	1994	1993	1992
Beverages	14.9%	$ 385.4	$ 358.5	$ 290.6
Snack Foods	11.7%	297.0	279.2	251.2
Restaurants	17.5%	538.8	457.2	374.3
Corporate		7.0	6.6	6.9
	15.0%	$ 1,228.2	$ 1,101.5	$ 923.0

	Growth Rate [a] 1989 - 1994	1994	1993	1992
By Restaurant Chain:				
Pizza Hut	17.8%	$ 218.6	$ 193.4	$ 150.5
Taco Bell	18.1%	156.0	124.6	101.5
KFC	16.7%	164.2	139.2	122.3
	17.5%	$ 538.8	$ 457.2	$ 374.3

Identifiable Assets

	Growth Rate [a] 1989 - 1994	1994	1993	1992
Beverages	9.1%	$ 9,566.0	$ 9,105.2	$ 7,857.5
Snack Foods	8.8%	5,043.9	4,994.5	4,628.0
Restaurants	18.6%	7,202.9	6,412.1	5,097.1
Corporate		2,979.2	3,194.0	3,368.6
	10.4%	$24,792.0	$23,705.8	$20,951.2

	Growth Rate [a] 1989 - 1994	1994	1993	1992
By Restaurant Chain:				
Pizza Hut	20.9%	$2,536.4	$2,232.9	$1,676.8
Taco Bell	21.1%	2,390.7	2,075.9	1,523.7
KFC	14.2%	2,275.8	2,103.3	1,896.6
	18.6%	$7,202.9	$6,412.1	$5,097.1

Capital Spending [c]

	Growth Rate [a] 1989 - 1994	1994	1993	1992
Beverages	20.4%	$ 677.1	$ 491.3	$ 343.7
Snack Foods	15.6%	532.1	491.4	446.2
Restaurants	20.3%	1,072.0	1,004.4	757.2
Corporate		7.2	20.8	18.0
	19.0%	$ 2,288.4	$ 2,007.9	$ 1,565.1
Domestic	13.7%	$ 1,492.6	$ 1,388.0	$ 1,069.0
International	35.7%	795.8	619.9	496.1
	19.0%	$ 2,288.4	$ 2,007.9	$ 1,565.1

	Growth Rate [a] 1989 - 1994	1994	1993	1992
By Restaurant Chain:				
Pizza Hut	19.3%	$ 389.0	$ 295.0	$ 212.8
Taco Bell	35.4%	473.4	459.4	339.0
KFC	5.6%	209.6	250.0	205.4
	20.3%	$1,072.0	$1,004.4	$ 757.2

Acquisitions and Investments in Affiliates [d]

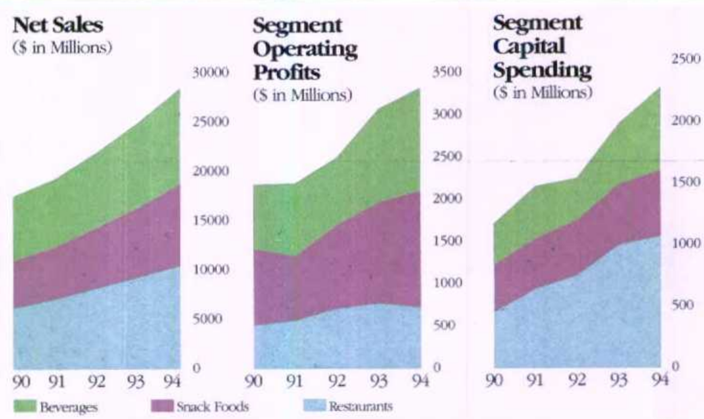
	1994	1993	1992
Beverages	$ 195.0	$ 711.5	$ 717.5
Snack Foods	11.8	75.5	201.3
Restaurants	147.8	588.7	480.4
	$ 354.6	$ 1,375.7	$ 1,399.2
Domestic	$ 87.8	$ 757.3	$ 549.5
International	266.8	618.4	849.7
	$ 354.6	$ 1,375.7	$ 1,399.2

	1994	1993	1992
By Restaurant Chain:			
Pizza Hut	$ 94.6	$ 312.9	$ 247.7
Taco Bell	32.3	186.8	72.4
KFC	20.9	89.0	160.3
	$ 147.8	$ 588.7	$ 480.4

(b) The results of centralized concentrate manufacturing operations in Puerto Rico and Ireland have been allocated based upon sales to the respective areas.

(c) Included noncash amounts related to capital leases, largely in the restaurant segment, of $35.2 in 1994, $26.3 in 1993 and $15.5 in 1992.

(d) Included noncash amounts related to treasury stock and debt issued in domestic transactions of $38.8 in 1994, $364.5 in 1993 and $189.5 in 1992. Of these noncash amounts, 14%, 65% and 58%, respectively, related to the beverage segment and the balance related to the restaurant segment.



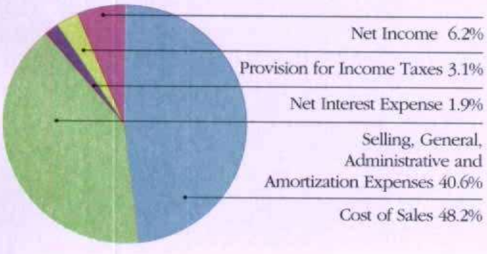
Consolidated Statement of Income

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fifty-three weeks ended December 31, 1994 and fifty-two weeks ended December 25, 1993 and December 26, 1992

	1994	1993	1992
Net Sales	**$28,472.4**	$25,020.7	$21,970.0
Costs and Expenses, net			
Cost of sales	**13,715.4**	11,946.1	10,611.7
Selling, general and administrative expenses	**11,243.6**	9,864.4	8,721.2
Amortization of intangible assets	**312.2**	303.7	265.9
Operating Profit	**3,201.2**	2,906.5	2,371.2
Gain on joint venture stock offering	**17.8**	–	–
Interest expense	**(645.0)**	(572.7)	(586.1)
Interest income	**90.4**	88.7	113.7
Income Before Income Taxes and Cumulative Effect of Accounting Changes	**2,664.4**	2,422.5	1,898.8
Provision for Income Taxes	**880.4**	834.6	597.1
Income Before Cumulative Effect of Accounting Changes	**1,784.0**	1,587.9	1,301.7
Cumulative Effect of Accounting Changes			
Postemployment benefits (net of income tax benefit of $29.3)	**(55.3)**	–	–
Pension assets (net of income tax expense of $14.5)	**23.3**	–	–
Postretirement benefits other than pensions (net of income tax benefit of $218.6)	**–**	–	(356.7)
Income taxes	**–**	–	(570.7)
Net Income	**$ 1,752.0**	$ 1,587.9	$ 374.3
Income (Charge) Per Share			
Before cumulative effect of accounting changes	**$ 2.22**	$ 1.96	$ 1.61
Cumulative effect of accounting changes			
Postemployment benefits	**(0.07)**	–	–
Pension assets	**0.03**	–	–
Postretirement benefits other than pensions	**–**	–	(0.44)
Income taxes	**–**	–	(0.71)
Net Income Per Share	**$ 2.18**	$ 1.96	$ 0.46
Average shares outstanding used to calculate income (charge) per share	**803.6**	810.1	806.7

See accompanying Notes to Consolidated Financial Statements.

Allocation of 1994 Net Sales



Management's Analysis – Results of Operations

(See Management's Analysis – Overview on page 24 for background information and Business Segments on page 27 for detail of segment results.)

To improve comparability, Management's Analysis includes analytical data to indicate the impact of beverage and snack food acquisitions, net of operations sold or contributed to joint ventures (collectively, "net acquisitions"). Acquisition impacts represent the results of the acquired businesses for periods in the current year corresponding to the prior year periods that did not include the results of the businesses. Restaurant units acquired, principally from franchisees, and constructed units are treated the same for purposes of this analysis and are collectively referred to as "additional restaurant units." Also, the analysis indicates, as applicable, the impact of the ongoing effects of the 1994 accounting changes (see Notes 13 and 14), the 1994 BAESA gain (see Note 4), the 1993 deferred tax charge due to U.S. tax legislation (see Note 17) and the 1992 restructuring charges (see Note 16), collectively referred to as "the Unusual Items."

Comparisons of 1994 to 1993 were impacted by an additional week's results in 1994 which contributed about $433.5 million or 2 points to growth in Net Sales and increased earnings by about $54.0 million ($34.9 million after-tax or $0.04 per share).

Net Sales rose $3.5 billion or 14% in 1994 of which $215 million or 1 point was contributed by net acquisitions. The balance of the increase reflected volume gains of $2.2 billion and $934 million due to additional restaurant units. Sales grew $3.1 billion or 14% in 1993. Net acquisitions contributed $1.1 billion or 5 points to sales growth. The balance of the increase reflected $913 million from additional restaurant units, volume gains that contributed $850 million and higher pricing. International sales grew 23% in 1994 and 24% in 1993 with net acquisitions contributing 1 point and 16 points, respectively. International sales represented 29%, 27% and 25% of total sales in 1994, 1993 and 1992, respectively. The long-term trend of an increasing international component of sales may be interrupted in the near term as a result of the unfavorable impact of the devaluation of the Mexican peso in late 1994 and early 1995 and its related effects.

Cost of sales as a percentage of Net Sales was 48.2%, 47.7% and 48.3% in 1994, 1993 and 1992, respectively. The decline in the 1994 gross margin reflected a mix shift to lower-margin businesses in international beverages and worldwide restaurants and lower net pricing in domestic beverages, partially offset by a mix shift to higher-margin packages and products in international snack foods and manufacturing efficiencies in domestic snack foods. The 1993 gross margin improvement was driven by lower product costs (packaging and ingredients) in domestic beverages.

Selling, general and administrative expenses rose 14% in 1994 and 13% in 1993, reflecting base business growth. Excluding the Unusual Items, Selling, general and administrative expenses rose 14% in 1994 and 16% in 1993, and as a percentage of Net Sales were 39.6%, 39.4% and 38.8% in 1994, 1993 and 1992, respectively. In 1994, Selling, general and administrative expenses grew at the same rate as sales. In 1993, selling and distribution expenses grew at a faster rate than sales, but marketing expenditures grew at a slower rate. These changes reflect the impact of worldwide bottling acquisitions and flat marketing expenditures in domestic beverages.

Amortization of intangible assets rose 3% in 1994 and 14% in 1993. This noncash expense reduced Net Income Per Share by $0.29, $0.28 and $0.24 in 1994, 1993 and 1992, respectively.

Operating Profit increased 10% in 1994 and 23% in 1993. Excluding the Unusual Items, operating profit increased $262 million or 9% in 1994 and $342 million or 13% in 1993, driven by combined segment operating profit growth of 7% in 1994 and 14% in 1993. The 1994 increase reflected $850 million from higher volumes and $73 million from additional restaurant units, partially offset by higher operating expenses. Growth in 1993 reflected $425 million from higher volumes and $89 million from additional restaurant units, partially offset by increased operating expenses. International segment profits grew 12% in 1994 and 8% in 1993, reflecting double-digit increases in snack foods and beverages, partially offset by a double-digit decline in restaurants. International profits represented 19%, 18% and 19% of combined segment operating profits in 1994, 1993 and 1992, respectively. This percentage may be affected in the near term due to the devaluation of the Mexican peso and its related effects. Small foreign exchange gains in 1994 compared to 1993's foreign exchange losses, and increased equity in net income of affiliates, which are not included in segment profits, aided 1994 total operating profit growth.

Gain on Joint Venture Stock Offering of $17.8 million ($16.8 million after-tax or $0.02 per share) related to the public offering of shares by the BAESA joint venture. See Note 4.

Interest expense, net of Interest income, increased 15% in 1994 and 2% in 1993. The 1994 increase reflected higher average borrowings partially offset by higher interest rates on investment balances. The change in 1993 reflected higher average borrowings and lower average short-term investment balances partially offset by lower interest rates. Excluding the impact of net acquisitions, net interest expense increased 10% in 1994 and declined 9% in 1993.

Provision for Income Taxes as a percentage of pretax income was 33.0%, 34.5% and 31.4% in 1994, 1993 and 1992, respectively. The 1993 effective tax rate, excluding the Unusual Item, was 33.3%. The slight decline in 1994 reflected reversal of valuation allowances related to deferred tax assets and an increase in the proportion of income taxed at lower foreign rates offset by the absence of 1993's favorable adjustment of certain prior year foreign accruals. The 1993 increase of 1.9 points reflected higher U.S. and foreign effective tax rates, an increase in the proportion of income taxed at the higher U.S. tax rate and higher state taxes, partially offset by the favorable adjustment of prior year accruals.

Income and Income Per Share Before Cumulative Effect of Accounting Changes ("income" and "income per share") in 1994 increased 12% to $1.8 billion and 13% to $2.22, respectively, and in 1993 increased 22% to $1.6 billion and 22% to $1.96, respectively. Excluding the Unusual Items, income and income per share rose 8% and 9%, respectively, in 1994 and 13% and 12%, respectively, in 1993. Growth in income per share was depressed by estimated dilution from acquisitions of $0.03 or 1 point in 1994 and $0.05 or 3 points in 1993, primarily due to international beverage acquisitions in both years.

The Mexican peso devaluation may unfavorably impact Net Sales and Net Income in 1995; however, due to many uncertainties in Mexico, we are unable to quantify the impacts. See Management's Analysis – Overview on page 26 and pages 8, 13 and 17 for each industry segment for discussion regarding the impacts.

Consolidated Balance Sheet

(in millions except per share amount)
PepsiCo, Inc. and Subsidiaries
December 31, 1994 and December 25, 1993

	1994	1993
ASSETS		
Current Assets		
Cash and cash equivalents	$ 330.7	$ 226.9
Short-term investments, at cost	1,157.4	1,573.8
	1,488.1	1,800.7
Accounts and notes receivable, less allowance: $150.6 in 1994 and $128.3 in 1993	2,050.9	1,883.4
Inventories	970.0	924.7
Prepaid expenses, taxes and other current assets	563.2	499.8
Total Current Assets	5,072.2	5,108.6
Investments in Affiliates	1,295.2	1,090.5
Property, Plant and Equipment, net	9,882.8	8,855.6
Intangible Assets, net	7,842.1	7,929.5
Other Assets	699.7	721.6
Total Assets	$24,792.0	$23,705.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 1,451.6	$ 1,390.0
Accrued compensation and benefits	753.5	726.0
Short-term borrowings	678.5	2,191.2
Income taxes payable	671.7	823.7
Accrued marketing	546.2	400.9
Other current liabilities	1,168.9	1,043.1
Total Current Liabilities	5,270.4	6,574.9
Long-term Debt	8,840.5	7,442.6
Other Liabilities	1,852.1	1,342.0
Deferred Income Taxes	1,972.9	2,007.6
Shareholders' Equity		
Capital stock, par value 1⅔¢ per share: authorized 1,800.0 shares, issued 863.1 shares	14.4	14.4
Capital in excess of par value	934.4	879.5
Retained earnings	7,739.1	6,541.9
Currency translation adjustment and other	(470.6)	(183.9)
	8,217.3	7,251.9
Less: Treasury stock, at cost: 73.2 shares and 64.3 shares in 1994 and 1993, respectively	(1,361.2)	(913.2)
Total Shareholders' Equity	6,856.1	6,338.7
Total Liabilities and Shareholders' Equity	$24,792.0	$23,705.8

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis – Financial Condition

(See Management's Analysis – Overview on page 24 for background information.)

Assets increased $1.1 billion or 5% over 1993. Short-term investments largely represent high-grade marketable securities portfolios held outside the U.S. The portfolio in Puerto Rico, which totaled $853 million at year-end 1994 and $1.3 billion at year-end 1993, arises from the operating cash flows of the centralized concentrate manufacturing facility that operates under a tax incentive grant. The grant provides that the portfolio funds may be remitted to the U.S. without any additional tax. PepsiCo remitted $380 million of the portfolio to the U.S. in 1994 and $564 million in 1993. PepsiCo continually reassesses its alternatives to redeploy its maturing investments in this and other portfolios held outside the U.S., considering other investment opportunities and risks, tax consequences and overall financing strategies.

Liabilities rose $569 million or 3% over 1993. Income taxes payable decreased $152 million or 18%, reflecting the prepayment of taxes in 1994 related to a federal tax audit. Other liabilities increased $510 million or 38%, reflecting a reclassification of amounts from Other current liabilities, normal growth in long-term liabilities and recognition of a liability for postemployment benefits under SFAS 112.

At year-end 1994 and 1993, $4.5 billion and $3.5 billion, respectively, of short-term borrowings were classified as long-term, reflecting PepsiCo's intent and ability, through the existence of its unused revolving credit facilities, to refinance these borrowings. PepsiCo's unused credit facilities with lending institutions, which exist largely to support the issuances of short-term borrowings, were $3.5 billion at year-end 1994 and 1993. Effective January 3, 1995, PepsiCo replaced its existing credit facilities with new credit facilities aggregating $4.5 billion, of which $1.0 billion expire in 1996 and $3.5 billion expire in 2000. Annually, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions.

Financial Leverage is measured by PepsiCo on both a market value and historical cost basis. PepsiCo believes that the most meaningful measure of debt is on a net basis, which takes into account its large investment portfolios held outside the U.S. These portfolios are managed as part of PepsiCo's overall financing strategy and are not required to support day-to-day operations. Net debt reflects the pro forma remittance of the portfolios (net of related taxes) as a reduction of total debt. Total debt includes the present value of operating lease commitments.

PepsiCo believes that market leverage (defined as net debt as a percent of net debt plus the market value of equity, based on the year-end stock price) is an appropriate measure of PepsiCo's financial leverage. Unlike historical cost measures, the market value of equity primarily reflects the estimated net present value of expected future cash flows that will both support debt and provide returns to shareholders. The market net debt ratio was 26% at year-end 1994 and 22% at year-end 1993. The increase was due to a 13% decrease in PepsiCo's stock price as well as an 8% increase in net debt. PepsiCo has established a long-term target range of 20-25% for its market net debt ratio to optimize its cost of capital.

As measured on an historical cost basis, the ratio of net debt to net capital employed (defined as net debt, other liabilities, deferred income taxes and shareholders' equity) was 49% at year-end 1994 and 50% at year-end 1993. The decline was due to a 9% increase in net capital employed, partially offset by the increase in net debt.

Because of PepsiCo's strong cash generating capability and its strong financial condition, PepsiCo has continued access to capital markets throughout the world.

At year-end 1994, about 60% of PepsiCo's net debt portfolio was exposed to variable interest rates, up from about 55% in 1993. In addition to variable rate debt, all net debt with maturities of less than one year is categorized as variable. PepsiCo prefers funding its operations with variable rate debt because it believes that, over the long-term, variable rate debt provides more cost effective financing than fixed rate debt. PepsiCo will issue fixed rate debt if advantageous market opportunities arise. A 1 point change in interest rates on variable rate net debt would impact annual interest expense, net of interest income, by approximately $38 million ($21 million after-tax or $0.03 per share) assuming the level and mix of the December 31, 1994 net debt portfolio was maintained.

PepsiCo's negative operating working capital position, which principally reflects the cash sales nature of its restaurant operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative $677 million and $849 million at year-end 1994 and 1993, respectively. The $172 million decline in negative working capital primarily reflected reclassification of amounts from Other current liabilities to Other Liabilities and base business growth in the more working capital intensive bottling and snack food operations exceeding the growth in restaurant operations.

Shareholders' Equity increased $517 million or 8% from 1993. This change reflected an 18% increase in retained earnings due to $1.8 billion in net income less dividends declared of $555 million. This growth was offset by a $448 million increase in treasury stock that reflected share repurchases, net of shares used for stock option exercises and acquisitions, and a $287 million unfavorable change in the currency translation adjustment account (CTA). The CTA change primarily reflected the impact of the devaluation of the Mexican peso in late 1994 on the translation of our peso denominated net assets.

Based on income before cumulative effect of accounting changes, PepsiCo's return on average shareholders' equity (ROAE) was 27.0% in 1994 and 27.2% in 1993. The ROAE was 26.5% in 1994 and 25.3% in 1993, excluding from both income and shareholders' equity the effect of the accounting changes and BAESA gain in 1994 as well as the $29.9 million charge in 1993 due to 1993 U.S. tax legislation.

Consolidated Statement of Cash Flows

(in millions)
PepsiCo, Inc. and Subsidiaries
Fifty-three weeks ended December 31, 1994 and fifty-two weeks ended December 25, 1993 and December 26, 1992

	1994	1993	1992
Cash Flows – Operating Activities			
Income before cumulative effect of accounting changes	**$ 1,784.0**	$ 1,587.9	$ 1,301.7
Adjustments to reconcile income before cumulative effect of accounting changes to net cash provided by operating activities:			
Depreciation and amortization	**1,576.5**	1,444.2	1,214.9
Deferred income taxes	**(66.9)**	83.3	(52.0)
Other noncash charges and credits, net	**391.1**	344.8	315.6
Changes in operating working capital, excluding effects of acquisitions:			
Accounts and notes receivable	**(111.8)**	(161.0)	(45.7)
Inventories	**(101.6)**	(89.5)	(11.8)
Prepaid expenses, taxes and other current assets	**1.2**	3.3	(27.4)
Accounts payable	**30.4**	143.2	(102.0)
Income taxes payable	**54.4**	(125.1)	(16.9)
Other current liabilities	**158.7**	(96.7)	135.2
Net change in operating working capital	**31.3**	(325.8)	(68.6)
Net Cash Provided by Operating Activities	**3,716.0**	3,134.4	2,711.6
Cash Flows – Investing Activities			
Acquisitions and investments in affiliates	**(315.8)**	(1,011.2)	(1,209.7)
Capital spending	**(2,253.2)**	(1,981.6)	(1,549.6)
Proceeds from sales of property, plant and equipment	**55.3**	72.5	89.0
Short-term investments, by original maturity:			
More than three months-purchases	**(218.6)**	(578.7)	(1,174.8)
More than three months-maturities	**649.5**	846.0	1,371.8
Three months or less, net	**(9.9)**	(8.3)	(249.4)
Other, net	**(268.3)**	(109.4)	(30.8)
Net Cash Used for Investing Activities	**(2,361.0)**	(2,770.7)	(2,753.5)
Cash Flows – Financing Activities			
Proceeds from issuances of long-term debt	**1,285.2**	710.8	1,092.7
Payments of long-term debt	**(1,179.5)**	(1,201.9)	(616.3)
Short-term borrowings, by original maturity:			
More than three months-proceeds	**1,303.8**	3,033.6	911.2
More than three months-payments	**(1,727.7)**	(2,791.6)	(2,062.6)
Three months or less, net	**113.8**	839.0	1,075.3
Cash dividends paid	**(540.2)**	(461.6)	(395.5)
Purchases of treasury stock	**(549.1)**	(463.5)	(32.0)
Proceeds from exercises of stock options	**97.4**	68.6	82.8
Other, net	**(43.5)**	(36.7)	(30.9)
Net Cash (Used for) Provided by Financing Activities	**(1,239.8)**	(303.3)	24.7
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(11.4)**	(3.4)	0.4
Net Increase (Decrease) in Cash and Cash Equivalents	**103.8**	57.0	(16.8)
Cash and Cash Equivalents – Beginning of Year	**226.9**	169.9	186.7
Cash and Cash Equivalents – End of Year	**$ 330.7**	$ 226.9	$ 169.9
Supplemental Cash Flow Information			
Cash Flow Data			
Interest paid	**$ 591.1**	549.5	574.7
Income taxes paid	**$ 663.1**	675.6	519.7
Schedule of Noncash Investing and Financing Activities			
Liabilities assumed in connection with acquisitions	**$ 223.5**	897.0	383.8
Issuance of treasury stock and debt for acquisitions	**$ 38.8**	364.5	189.5
Book value of net assets exchanged for investment in affiliates	**$ –**	60.8	86.7

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis – Cash Flows

(See Management's Analysis – Overview on page 24 for background information.)

Cash flow activity in 1994 reflected strong cash flows from operations of $3.7 billion and $421 million in net proceeds from short-term investment activities. These amounts were used to fund capital spending of $2.3 billion, purchases of treasury stock totaling $549 million, dividend payments of $540 million, acquisition activity of $316 million and net debt repayments of $204 million.

One of PepsiCo's most significant financial strengths is its internal cash generation capability. In fact, after capital spending and acquisitions, each industry segment generated positive cash flows in 1994, with particularly strong results from beverages and snack foods. Net cash flows from PepsiCo's domestic businesses were partially offset by international uses of cash, reflecting strategies to accelerate growth of international operations.

The significant devaluation of the Mexican peso in late 1994 and early 1995 did not materially impact 1994 consolidated cash flows. However, because PepsiCo's operations in Mexico represented approximately 7% of consolidated cash flows from operations in 1994, the devaluation and its related effects are expected to have an unfavorable impact on 1995 cash flows from operations. In addition to the actions taken to mitigate the unfavorable impact on operating profits, the operations in Mexico will defer a portion of their capital spending. Nonetheless, significant uncertainties remain in Mexico and, as a result, it is not possible to quantify the impact on 1995 cash flows. In addition, actions are being taken in other parts of the world intended to mitigate the impact. See Management's Analysis – Overview on page 26 for additional discussion.

Net Cash Provided by Operating Activities in 1994 rose $582 million or 19% over 1993, and in 1993 grew $423 million or 16% over 1992. Income before noncash charges and credits rose 6% in 1994 and 24% in 1993. The increases in depreciation and amortization noncash charges of $132 million in 1994 and $229 million in 1993 reflected capital spending and in 1993, acquisitions. The 1994 decrease of $150 million in the deferred income tax provision was primarily due to the effect in 1994 of converting from premium based casualty insurance to self-insurance for most of these risks and adopting SFAS 112 for accounting for postemployment benefits. The 1993 increase of $135 million in the deferred income tax provision was primarily due to the lapping of 1992 effects related to restructuring accruals and prefunded employee benefit expenses and the impact of 1993 U.S. tax legislation. The cash provided in 1994 from working capital was $357 million better than 1993, reflecting normal increases in accrued liabilities across all of our businesses, lapping the effect of higher income tax payments and a lower provision in 1993 and improved trade receivable collections, partially offset by the impact on accounts payable of the timing of a large year-end payment to prefund employee benefits. The 1993 over 1992 net increase of $257 million in cash used for operating working capital reflected slower collections of domestic accounts receivable, advance domestic purchases of product ingredients, the higher payments of income taxes and the lapping of 1992 and 1991 effects related to restructuring accruals, partially offset by the payment to prefund employee benefits.

Investing Activities over the past three years reflected strategic spending in all three industry segments through capital spending, acquisitions and investments in affiliates. PepsiCo seeks investments that generate cash returns in excess of its long-term cost of capital, which is estimated to be approximately 11% at year-end 1994. See Note 5 for a discussion of acquisition activity. About 75% of the total acquisition activity in 1994 represented international transactions, compared to 45% in 1993 and 60% in 1992. PepsiCo continues to seek opportunities to strengthen its position in its domestic and international industry segments through such strategic acquisitions.

Increased capital spending in 1994 was driven by beverages reflecting investments in equipment for new packaging and new products in the U.S. and emerging international markets, primarily Eastern Europe. Capital spending increases in 1993 and 1992 were driven by restaurants, primarily for new units. Restaurants represented about half of the total capital spending in all three years. Restaurants, beverages and snack foods represent 40%, 30% and 30%, respectively, of the estimated $2.4 billion spending in 1995. This reflects a shift primarily from restaurants to snack foods. Beverages and snack foods 1995 capital spending reflects production capacity expansion and equipment replacements, while restaurants is primarily for new units. Restaurant capital spending in 1995 may be further reduced depending upon future decisions as described beginning on page 17. Approximately one-third of the planned 1995 capital spending relates to international businesses, about the same as the prior three years. Cash provided by operations is expected to be sufficient to fund the expected capital spending.

Investment activity in PepsiCo's short-term portfolios, primarily held outside the U.S., provided $421 million in 1994 and $259 million in 1993, respectively, compared to the increased net investment of $52 million in 1992.

Financing Activities. The 1994 over 1993 change in cash flows from net financing activities was a use of $937 million, primarily reflecting net repayments of short and long-term debt of $204 million compared to net proceeds of $590 million in 1993. The 1993 over 1992 change in cash flows from financing activities was a use of $328 million, primarily due to increased purchases of treasury stock.

At year-end 1994, PepsiCo had authority to issue $3.4 billion of long-term debt and had facilities in place in the U.S., Europe and Japan to take advantage of marketplace opportunities. The principal purposes of these shelf registrations are for financing growth activities and refinancing borrowings.

Cash dividends declared were $555 million in 1994 and $486 million in 1993. PepsiCo targets a dividend payout of about one-third of the prior year's income from ongoing operations, thus retaining sufficient earnings to provide financial resources for growth opportunities.

Share repurchase decisions are evaluated considering management's target capital structure and other investment opportunities. In 1994, PepsiCo repurchased 15.0 million shares at a cost of $549 million. Subsequent to year-end, PepsiCo repurchased 3.4 million shares through February 7, 1995 at a cost of $121 million. Including these repurchases, 18.8 million shares have been repurchased under the 50 million share repurchase authority granted by PepsiCo's Board of Directors on July 22, 1993.

Consolidated Statement of Shareholders' Equity

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fifty-three weeks ended December 31, 1994 and fifty-two weeks ended December 25, 1993 and December 26, 1992

	Capital Stock						Currency	
	Issued		Treasury		Capital in Excess	Retained	Translation Adjustment	
	Shares	Amount	Shares	Amount	of Par Value	Earnings	and Other	Total
Shareholders' Equity, December 28, 1991	863.1	$ 14.4	(74.0)	$ (745.9)	$ 476.6	$ 5,470.0	$ 330.3	$ 5,545.4
1992 Net income	–	–	–	–	–	374.3	–	374.3
Cash dividends declared (per share-$0.51)	–	–	–	–	–	(404.6)	–	(404.6)
Currency translation adjustment	–	–	–	–	–	–	(429.3)	(429.3)
Shares issued in connection with acquisitions	–	–	4.3	44.2	115.3	–	–	159.5
Stock option exercises, including tax benefits of $57.5	–	–	6.3	65.3	74.9	–	–	140.2
Purchases of treasury stock	–	–	(1.0)	(32.0)	–	–	–	(32.0)
Other	–	–	0.1	1.4	0.8	–	–	2.2
Shareholders' Equity, December 26, 1992	863.1	$ 14.4	(64.3)	$ (667.0)	$ 667.6	$ 5,439.7	$ (99.0)	$ 5,355.7
1993 Net income	–	–	–	–	–	1,587.9	–	1,587.9
Cash dividends declared (per share-$0.61)	–	–	–	–	–	(485.7)	–	(485.7)
Currency translation adjustment	–	–	–	–	–	–	(77.0)	(77.0)
Purchases of treasury stock	–	–	(12.4)	(463.5)	–	–	–	(463.5)
Shares issued in connection with acquisitions	–	–	8.9	170.2	164.6	–	–	334.8
Stock option exercises, including tax benefits of $23.4	–	–	3.4	46.0	46.1	–	–	92.1
Pension liability adjustment, net of deferred taxes of $5.1	–	–	–	–	–	–	(7.9)	(7.9)
Other	–	–	0.1	1.1	1.2	–	–	2.3
Shareholders' Equity, December 25, 1993	863.1	$ 14.4	(64.3)	$ (913.2)	$ 879.5	$ 6,541.9	$ (183.9)	$ 6,338.7
1994 Net income	**–**	**–**	**–**	**–**	**–**	**1,752.0**	**–**	**1,752.0**
Cash dividends declared (per share-$0.70)	**–**	**–**	**–**	**–**	**–**	**(554.8)**	**–**	**(554.8)**
Currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**(294.6)**	**(294.6)**
Purchases of treasury stock	**–**	**–**	**(15.0)**	**(549.1)**	**–**	**–**	**–**	**(549.1)**
Stock option exercises, including tax benefits of $27.1	**–**	**–**	**4.9**	**80.8**	**44.5**	**–**	**–**	**125.3**
Shares issued in connection with acquisitions	**–**	**–**	**0.9**	**15.1**	**13.7**	**–**	**–**	**28.8**
Pension liability adjustment, net of deferred taxes of $5.1	**–**	**–**	**–**	**–**	**–**	**–**	**7.9**	**7.9**
Other	**–**	**–**	**0.3**	**5.2**	**(3.3)**	**–**	**–**	**1.9**
Shareholders' Equity, December 31, 1994	**863.1**	**$14.4**	**(73.2)**	**$(1,361.2)**	**$934.4**	**$7,739.1**	**$(470.6)**	**$6,856.1**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular dollars in millions except per share amounts)

Note 1 - Summary of Significant Accounting Policies
The preparation of the Consolidated Financial Statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates. Certain reclassifications were made to prior year amounts to conform with the 1994 presentation. Significant accounting policies are discussed below, or where applicable, in the Notes that follow.

Principles of Consolidation. The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany accounts and transactions have been eliminated. Investments in affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method and the equity in net income is included in Selling, general and administrative expenses.

Marketing Costs. Marketing costs are reported in Selling, general and administrative expenses and include costs of advertising, marketing and promotional programs. Promotional discounts are expensed as incurred and other marketing costs not deferred at year-end are charged to expense ratably in relation to sales over the year in which incurred. Marketing costs deferred at year-end consist of media and personal service advertising prepayments, promotional materials in inventory and production costs of future media advertising; these assets are expensed in the year first used.

Promotional discounts to retailers in the beverage segment are classified as a reduction of sales; in the snack food segment, such discounts are generally classified as marketing costs. The difference in classification reflects our historical view that promotional discounts had become so pervasive in the beverage industry, compared to the snack food industry, that they were effectively price discounts and should be classified accordingly. This differing accounting classification was also supported by a survey of the accounting practice of others in the beverage and snack food industries. PepsiCo plans to review its accounting policy in 1995 to determine whether the different accounting classification for beverages and snack foods still reflects the substance of the activity and whether it continues to be consistent with others in our industries. Depending on the outcome of the review, PepsiCo may change its accounting classification of beverage or snack food promotional discounts. Any change will not impact reported earnings as it would only result in a reclassification of the cost of promotional discounts between Net Sales and Selling, general and administrative expenses.

Cash Equivalents. Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, largely held outside the U.S., are primarily classified as short-term investments.

Net Income Per Share. Net income per share is computed by dividing net income by the weighted average number of shares and share equivalents outstanding during each year.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were $152 million, $113 million and $102 million in 1994, 1993 and 1992, respectively.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every 5 or 6 years. The fiscal year ending December 31, 1994 consisted of 53 weeks.

Note 2 - Business Segments
Information regarding industry segments and geographic areas of operations is provided on pages 27 through 29.

Note 3 - Items Affecting Comparability
The fifty-third week, as described in Note 1, increased earnings in 1994 by approximately $54.0 million ($34.9 million after-tax or $0.04 per share). See Items Affecting Comparability on page 27 for the estimated impact of the fifty-third week on comparability of net sales and operating profits.

The effects of unusual items, primarily restructuring charges, and accounting changes on comparability of operating profits are provided in Items Affecting Comparability on page 27.

Information regarding the 1994 gain from a public share offering by PepsiCo's BAESA joint venture and a 1993 charge to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. tax legislation are provided in Notes 4 and 17, respectively.

Note 4 - Joint Venture Stock Offering
In 1993, PepsiCo entered into an arrangement with the principal shareholders of Buenos Aires Embotelladora S.A. (BAESA), a franchised bottler with operations in Argentina and Costa Rica. PepsiCo contributed certain assets, primarily bottling operations in Chile and Uruguay, while the shareholders contributed all of their outstanding shares in BAESA, representing 72.8% of the voting control and 42.5% of the ownership interest. Through this arrangement, PepsiCo's ownership in BAESA, which is accounted for by the equity method, was 25.9%.

On March 24, 1994, BAESA completed a public offering of 2.9 million American Depositary Shares (ADS) at $34.50 per ADS, which are traded on the New York Stock Exchange. In conjunction with the offering, PepsiCo and certain other shareholders exercised options for the equivalent of 1.6 million ADS. As a result of these transactions, PepsiCo's ownership in BAESA declined to 23.8%. The transactions generated cash proceeds for BAESA of $136.4 million. The resulting one-time, noncash gain to PepsiCo was $17.8 million ($16.8 million after-tax or $0.02 per share).

Note 5 - Acquisitions and Investments in Affiliates
During 1994, PepsiCo completed acquisitions and affiliate investments aggregating $355 million, principally for cash. In addition, approximately $41 million of debt was assumed in these transactions, most of which was subsequently retired. This activity included equity investments in international franchised bottling operations, primarily in Thailand and China, and acquisitions of international and domestic franchised restaurant operations and franchised and independent bottling operations, primarily in India and Mexico.

During 1993, PepsiCo completed acquisitions and affiliate investments aggregating $1.4 billion, principally comprised of $1.0 billion in cash and $335 million in PepsiCo Capital Stock.

Approximately $307 million of debt was assumed in these transactions, more than half of which was subsequently retired. This activity included acquisitions of domestic and international franchised restaurant operations, the buyout of PepsiCo's joint venture partners in a franchised bottling operation in Spain and the related acquisition of their fruit-flavored beverage concentrate operation, the acquisition of the remaining 85% interest in a large franchised bottling operation in the Northwestern U.S., the acquisition of a regional Mexican-style casual dining restaurant chain in the U.S. and equity investments in certain franchised bottling operations in Argentina and Mexico.

During 1992, acquisitions and affiliate investment activity aggregated $1.4 billion, principally for cash. In addition, approximately $218 million of debt was assumed in these transactions, most of which was subsequently retired. This activity included acquisitions of international (primarily Canada) and domestic franchised bottling operations and a number of domestic and international franchised restaurant operations, the buyout of PepsiCo's joint venture partner in a Canadian snack food business and an equity investment in a domestic casual dining restaurant chain featuring gourmet pizza. In addition, PepsiCo exchanged certain previously consolidated snack food operations in Europe with a net book value of $87 million for a 60% equity interest in an international snack food joint venture with General Mills, Inc. PepsiCo secured a controlling interest in its Mexican cookie affiliate, Gamesa, through an exchange of certain non-cookie operations of Gamesa for its joint venture partner's interest.

The acquisitions have been accounted for by the purchase method; accordingly, their results are included in the Consolidated Financial Statements from their respective dates of acquisition. The aggregate impact of acquisitions was not material to PepsiCo's net sales, net income or net income per share; accordingly, no related pro forma information is provided.

Note 6 - Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out [LIFO] method) or net realizable value. The cost of 38% of 1994 inventories and 41% of 1993 inventories was computed using the LIFO method. Use of the LIFO method increased the total 1994 and 1993 year-end inventory amounts below by $5.5 million and $8.9 million, respectively.

	1994	1993
Raw materials and supplies	**$454.8**	$463.9
Finished goods	**515.2**	460.8
	$970.0	$924.7

See page 24 of Management's Analysis – Overview, for a discussion of PepsiCo's use of futures contracts to hedge its exposure to market price fluctuations for certain raw materials. Gains and losses on these contracts are deferred and included in the related cost of raw materials when purchased. Gains and losses realized in 1994 or deferred at year-end were not significant. As of December 31, 1994, PepsiCo had various open contracts, generally expiring by December 1995, which were not material.

Note 7 - Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the assets. Depreciation expense in 1994, 1993 and 1992 was $1.2 billion, $1.1 billion and $923 million, respectively.

	1994	1993
Land	**$ 1,321.6**	$ 1,186.4
Buildings and improvements	**5,664.1**	5,017.6
Capital leases, primarily buildings	**451.2**	402.6
Machinery and equipment	**8,208.1**	7,175.0
Construction in progress	**485.1**	468.4
	16,130.1	14,250.0
Accumulated depreciation	**(6,247.3)**	(5,394.4)
	$ 9,882.8	$ 8,855.6

Note 8 - Intangible Assets

Identifiable intangible assets arose from the allocation of purchase prices of businesses acquired and consist principally of reacquired franchise rights and trademarks. Reacquired franchise rights relate to acquisitions of franchised bottling and restaurant operations and trademarks principally relate to acquisitions of international snack food and beverage trademarks. Amounts assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets.

Intangible assets are amortized on a straight-line basis over appropriate periods generally ranging from 20 to 40 years. Accumulated amortization, included in the amounts below, was $1.6 billion and $1.3 billion at year-end 1994 and 1993, respectively.

	1994	1993
Reacquired franchise rights	**$3,974.0**	$3,959.7
Trademarks	**768.5**	849.1
Other identifiable intangibles	**249.7**	204.1
Goodwill	**2,849.9**	2,916.6
	$7,842.1	$7,929.5

The recoverability of carrying amounts of intangible assets is evaluated on a recurring basis. The primary indicators of recoverability are current or forecasted profitability over the estimated remaining life of the intangible assets, measured as the combined operating profit of the acquired business (including amortization of the intangible assets) and existing businesses that are directly related to the acquired business. Consideration is also given to the estimated disposal values of certain identifiable intangible assets compared to their carrying amounts. If recoverability of an intangible asset is unlikely based on the evaluation, the carrying amount is reduced by the amount it exceeds the forecasted operating profits and any disposal value. For the three-year period ended December 31, 1994, there were no significant adjustments to the carrying amounts of the intangible assets resulting from these evaluations.

Note 9 - Short-term Borrowings and Long-term Debt

	1994	1993
Short-term Borrowings		
Commercial paper (5.4% and 3.3%) **(A)**	**$ 2,254.4**	$ 3,535.0
Current maturities of long-term debt issuances **(A)**	**987.5**	1,183.1
Notes (5.4% and 3.5%) **(A)**	**1,492.4**	394.0
Other borrowings (6.5% and 6.3%)	**444.2**	529.1
Amount reclassified to long-term debt **(B)**	**(4,500.0)**	(3,450.0)
	$ 678.5	$ 2,191.2
Long-term Debt		
Short-term borrowings, reclassified **(B)**	**$ 4,500.0**	$ 3,450.0
Notes due 1995 through 2008 (6.6% and 6.5%) **(A)**	**3,724.7**	3,873.8
Euro notes, 8% due 1997	**250.0**	–
Zero coupon notes, $795 million due 1995-2012 (14.6% and 14.4% annual yield to maturity)	**219.2**	327.2
Japanese yen 3.3% bonds due 1997 **(D)**	**200.8**	–
Swiss franc perpetual Foreign Interest Payment bonds **(C)**	**213.0**	212.2
Swiss franc 5¼% bearer bonds due 1995 **(D)**	**99.7**	90.1
Swiss franc 7⅛% notes due 1994 **(D)**	**–**	69.8
Capital lease obligations (See Note 11)	**298.2**	291.4
Other, due 1995-2015 (8.1% and 6.6%)	**322.4**	311.2
	9,828.0	8,625.7
Less current maturities of long-term debt issuances	**(987.5)**	(1,183.1)
	$ 8,840.5	$ 7,442.6

The interest rates in the above table indicate, where applicable, the weighted average rates at year-end 1994 and 1993, respectively.

The carrying amount of long-term debt includes any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which are presently significant to PepsiCo. Subsequent to year-end 1994, PepsiCo issued $150 million of Notes through February 7, 1995.

The annual maturities of long-term debt through 1999, excluding capital lease obligations and the reclassified short-term borrowings, are: 1995-$1.0 billion, 1996-$1.1 billion, 1997-$1.0 billion, 1998-$1.2 billion and 1999-$280 million.

See Management's Analysis – Overview on page 24 for a discussion of PepsiCo's use of interest rate swaps and currency exchange agreements and its management of the inherent credit risk and Note 10.

(A) The following table indicates the notional amount and weighted average interest rates, by category, of interest rate swaps outstanding at year-end 1994 and 1993, respectively. The weighted average variable interest rates that PepsiCo pays, which are indexed primarily to either commercial paper or LIBOR rates, are based on rates as of the respective balance sheet date and are subject to change. Terms of interest rate swap agreements match the debt they modify and terminate in 1995 through 2008. The differential to be paid or received on interest rate swaps is accrued as interest rates change and is charged or credited to interest expense over the life of the agreements. The carrying amount of each interest rate swap is reflected in the Consolidated Balance Sheet as a receivable or payable under the appropriate current asset or liability caption.

	1994	1993
Receive fixed-pay variable:		
Notional amount	**$1,557.0**	$ 570.0
Weighted average receive rate	**5.89%**	5.96%
Weighted average pay rate	**6.12%**	3.28%
Receive variable-pay variable:		
Notional amount	**$1,008.5**	$ 465.0
Weighted average receive rate	**4.90%**	3.81%
Weighted average pay rate	**5.99%**	3.17%
Receive variable-pay fixed:		
Notional amount	**$ 215.0**	$ 265.0
Weighted average receive rate	**6.56%**	3.84%
Weighted average pay rate	**8.22%**	7.46%

The following table identifies the composition of total debt (excluding capital lease obligations and the effect of the reclassified amounts from short-term borrowings) after giving effect to the impact of interest rate swaps. All short-term borrowings are considered variable interest rate debt for purposes of this table.

	1994		1993	
	Carrying Amount	**Weighted Average Interest Rate**	Carrying Amount	Weighted Average Interest Rate
Variable interest rate debt:				
Short-term borrowings	**$5,178.5**	**6.19%**	$5,641.2	4.11%
Long-term debt	**1,102.5**	**6.25%**	567.6	4.75%
	6,281.0	**6.20%**	6,208.8	4.17%
Fixed interest rate debt	**2,939.8**	**6.96%**	3,133.6	6.95%
	$9,220.8	**6.44%**	$9,342.4	5.10%

(B) At year-end 1994 and 1993, PepsiCo had unused revolving credit facilities covering potential borrowings aggregating $3.5 billion. Effective January 3, 1995, PepsiCo replaced its existing credit facilities with new revolving credit facilities aggregating $4.5 billion, of which $1.0 billion expire in 1996 and $3.5 billion expire in 2000. At year-end 1994 and 1993, $4.5 billion and $3.5 billion, respectively, of short-term borrowings were classified as long-term debt, reflecting PepsiCo's intent and ability, through the existence of the unused credit facilities, to refinance these borrowings. These credit facilities exist largely to support the issuances of short-term borrowings and are available for acquisitions and other general corporate purposes.

(C) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 is 7½% through 1996. The bonds have no stated maturity date. At the end of

each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying amount. Interest payments are made in U.S. dollars and are calculated by applying the coupon rate to the original U.S. dollar principal proceeds of $214 million.

(D) PepsiCo has entered into currency exchange agreements to hedge its foreign currency exposure on these issues of non-U.S. dollar-denominated debt. At year-end 1994, the carrying amount of this debt aggregated $301 million and the receivables and payables under related currency exchange agreements aggregated $50 million and $2 million, respectively, resulting in a net effective U.S. dollar liability of $253 million with a weighted average interest rate of 6.6%. At year-end 1993, the aggregate carrying amount of the debt and the receivables under related currency exchange agreements were $160 million and $41 million, respectively, resulting in a net effective U.S. dollar liability of $119 million with a weighted average fixed interest rate of 6.5%. The carrying amount of each currency exchange agreement is reflected in the Consolidated Balance Sheet as a receivable or payable under the appropriate current and noncurrent asset and liability captions. Changes in the carrying amount of a currency exchange agreement resulting from exchange rate movements are offset by changes in the carrying amount of the related non-U.S. dollar-denominated debt, as both amounts are based on current exchange rates.

Note 10 - Fair Value of Financial Instruments

The carrying amounts in the following table are included in the Consolidated Balance Sheet under the indicated captions, except for debt-related derivative instruments (interest rate swaps and currency exchange agreements), which are included in the appropriate current or noncurrent asset or liability caption. Investments consist primarily of debt securities and have been classified as held-to-maturity. Noncurrent investments mature at various dates through 2000.

Because of the short maturity of cash equivalents and short-term investments, the carrying amount approximates fair value. The fair value of noncurrent investments is based upon market quotes. The fair value of debt, debt-related derivative instruments and guarantees is estimated using market quotes, valuation models and calculations based on market rates.

See Management's Analysis – Overview on page 24 and Note 9 for more information regarding PepsiCo's use of interest rate swaps and currency exchange agreements and its management of the inherent credit risk.

	1994		1993	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 330.7**	**$ 330.7**	$ 226.9	$ 226.9
Short-term investments	**$1,157.4**	**$1,157.4**	$1,573.8	$1,573.8
Other assets (noncurrent investments)	**$ 48.0**	**$ 47.5**	$ 55.5	$ 55.4
Liabilities				
Debt:				
Short-term borrowings and long-term debt, net of capital leases	**$9,220.8**	**$9,265.4**	$9,342.4	$9,626.0
Debt-related derivative instruments:				
Open contracts in asset position	**(51.3)**	**(51.4)**	(42.4)	(72.7)
Open contracts in liability position	**7.9**	**54.1**	1.2	32.8
Net debt	**$9,177.4**	**$9,268.1**	$9,301.2	$9,586.1
Guarantees	**–**	**$ 2.7**	–	$ 1.7

Note 11 - Leases

PepsiCo has noncancelable commitments under both capital and long-term operating leases, primarily for restaurant units. Certain of these units have been subleased to restaurant franchisees. In addition, PepsiCo is lessee under noncancelable leases covering vehicles, equipment and nonrestaurant real estate. Capital and operating lease commitments expire at various dates through 2088 and, in many cases, provide for rent escalations and renewal options. Most leases require payment of related executory costs which include property taxes, maintenance and insurance.

Future minimum commitments and sublease receivables under noncancelable leases are as follows:

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1995	$ 58.9	$ 313.0	$ 3.2	$ 9.6
1996	53.9	276.4	3.0	8.8
1997	46.7	247.3	2.7	7.7
1998	65.2	228.7	2.3	6.7
1999	34.4	203.3	2.0	6.0
Later years	279.0	1,072.1	7.1	24.2
	$538.1	$2,340.8	$20.3	$63.0

At year-end 1994, the present value of minimum payments under capital leases was $298 million, after deducting $1 million for estimated executory costs and $239 million representing imputed interest. The present value of minimum receivables under direct financing subleases was $13 million after deducting $7 million of unearned interest income.

Rental expense and income were as follows:

	1994	1993	1992
Rental expense			
Minimum	**$433.5**	$392.3	$351.5
Contingent	**31.7**	27.5	27.5
	$465.2	$419.8	$379.0
Rental income			
Minimum	**$ 11.7**	$ 12.2	$ 10.2
Contingent	**3.5**	4.4	4.5
	$ 15.2	$ 16.6	$ 14.7

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Note 12 - Postretirement Benefits Other Than Pensions

PepsiCo provides postretirement health care benefits to eligible retired employees and their dependents, principally in the U.S. Retirees who have 10 years of service and attain age 55 while in service with PepsiCo are eligible to participate in the postretirement benefit plans. The plans are not funded and were largely noncontributory through 1993.

In 1992, PepsiCo adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The cumulative effect of this change in accounting for years prior to 1992 resulted in a noncash charge of $575.3 million pretax ($356.7 million after-tax or $0.44 per share).

Effective in 1993 and 1994, PepsiCo implemented programs intended to stem rising costs and introduced retiree cost-sharing, including adopting a provision which limits its future obligation to absorb health care cost inflation. These amendments resulted in an unrecognized prior service gain of $191 million, which is being amortized on a straight-line basis over the average remaining employee service period of 10 years as a reduction in postretirement benefit expense beginning in 1993.

The postretirement benefit expense for 1994, 1993 and 1992 included the following components:

	1994	1993	1992
Service cost of benefits earned	**$ 18.6**	$ 14.7	$25.5
Interest cost on accumulated postretirement benefit obligation	**41.4**	40.6	50.8
Amortization of prior service (gain) cost	**(19.6)**	(19.6)	0.1
Amortization of net loss	**5.6**	0.5	–
	$ 46.0	$ 36.2	$76.4

The decline in the 1993 expense was primarily due to the plan amendments, reflecting reductions in service and interest costs as well as the amortization of the unrecognized prior service gain.

The 1994 and 1993 postretirement benefit liability included the following components:

	1994	1993
Actuarial present value of postretirement benefit obligation:		
Retirees	**$(288.6)**	$(313.8)
Fully eligible active plan participants	**(88.1)**	(107.3)
Other active plan participants	**(148.0)**	(206.9)
Accumulated postretirement benefit obligation	**(524.7)**	(628.0)
Unrecognized prior service gain	**(151.9)**	(171.5)
Unrecognized net loss	**11.5**	148.6
	$(665.1)	$(650.9)

The discount rate assumptions used in computing the information above were as follows:

	1994	1993	1992
Postretirement benefit expense	**6.8%**	8.2	8.9
Accumulated postretirement benefit obligation	**9.1%**	6.8	8.2

The year-to-year fluctuations in the discount rate assumptions primarily reflect changes in U.S. interest rates. The discount rate represents the expected yield on a portfolio of high-grade (AA rated or equivalent) fixed-income investments with cash flow streams sufficient to satisfy benefit obligations under the plans when due.

As a result of the plan amendments discussed above, separate assumed health care cost trend rates are used for employees who retire before and after the effective date of the amendments. The assumed health care cost trend rate for employees who retired before the effective date is 9.5% for 1995, declining gradually to 5.5% in 2005 and thereafter. For employees retiring after the effective date, the trend rate is 8.0% for 1995, declining gradually to 0% in 2005 and thereafter. A 1 point increase in the assumed health care cost trend rate would have increased the 1994 postretirement benefit expense by $2.0 million and would have increased the 1994 accumulated postretirement benefit obligation by $20.6 million.

Note 13 - Pension Plans

PepsiCo sponsors noncontributory defined benefit pension plans covering substantially all full-time domestic employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the domestic plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed income obligations. For 1994 and 1993, the domestic plan assets included 6.9 million shares of PepsiCo Capital Stock, with a market value of $227.2 million and

$265.7 million, respectively. Dividends on PepsiCo Capital Stock of $4.7 million and $4.0 million were received by the domestic plans in 1994 and 1993, respectively.

The international plans presented below are primarily comprised of those in the U.K. and Canada for all three years as well as those in Mexico and Japan for 1994 and 1993. Information for 1992 has not been restated, since complete information for plans in Mexico and Japan was not available. Inclusion of the plans in Mexico and Japan increased the 1994 and 1993 pension expense by $7.9 million and $5.5 million, respectively.

The net pension expense (income) for company-sponsored plans included the following components:

	Domestic Plans			International Plans		
	1994	1993	1992	**1994**	1993	1992
Service cost of benefits earned	**$ 69.8**	$ 57.1	$ 52.3	**$ 15.0**	$ 12.4	$ 8.6
Interest cost on projected benefit obligation	**84.0**	75.6	72.0	**15.4**	15.0	10.9
Return on plan assets:						
Actual loss (gain)	**19.7**	(161.5)	(61.3)	**8.1**	(40.8)	(36.0)
Deferred (loss) gain	**(130.5)**	70.9	(26.2)	**(32.5)**	20.4	18.6
	(110.8)	(90.6)	(87.5)	**(24.4)**	(20.4)	(17.4)
Amortization of net transition (gain) loss	**(19.0)**	(19.0)	(19.0)	**(0.2)**	0.3	–
Net other amortization	**9.1**	8.8	8.2	**1.7**	1.7	(6.5)
	$ 33.1	$ 31.9	$ 26.0	**$ 7.5**	$ 9.0	$ (4.4)

Reconciliations of the funded status of the plans to the pension liability are as follows:

	Domestic Plans				International Plans			
	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets		Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1994	1993	**1994**	1993	**1994**	1993	**1994**	1993
Actuarial present value of benefit obligation:								
Vested benefits	**$ (774.0)**	$ (726.0)	**$(21.6)**	$(192.8)	**$(124.4)**	$(138.8)	**$(22.8)**	$(28.0)
Nonvested benefits	**(97.4)**	(99.0)	**(1.6)**	(28.3)	**(2.3)**	(3.4)	**(7.4)**	(5.4)
Accumulated benefit obligation	**(871.4)**	(825.0)	**(23.2)**	(221.1)	**(126.7)**	(142.2)	**(30.2)**	(33.4)
Effect of projected compensation increases	**(111.1)**	(131.6)	**(47.6)**	(41.7)	**(24.1)**	(22.9)	**(10.1)**	(18.4)
Projected benefit obligation	**(982.5)**	(956.6)	**(70.8)**	(262.8)	**(150.8)**	(165.1)	**(40.3)**	(51.8)
Plan assets at fair value	**1,133.0**	1,018.7	**2.8**	185.2	**213.4**	221.7	**15.5**	17.3
Plan assets in excess of (less than) projected benefit obligation	**150.5**	62.1	**(68.0)**	(77.6)	**62.6**	56.6	**(24.8)**	(34.5)
Unrecognized prior service cost	**30.6**	11.7	**30.0**	49.9	**3.5**	3.2	**0.3**	0.5
Unrecognized net (gain) loss	**(71.3)**	16.0	**3.7**	26.1	**14.0**	11.9	**(3.1)**	7.7
Unrecognized net transition (gain) loss	**(73.1)**	(89.0)	**0.3**	(2.8)	**(1.8)**	(2.6)	**4.9**	8.1
Adjustment required to recognize minimum liability	**–**	–	**–**	(33.0)	**–**	–	**–**	(4.3)
Prepaid (accrued) pension liability	**$ 36.7**	$ 0.8	**$(34.0)**	$ (37.4)	**$ 78.3**	$ 69.1	**$(22.7)**	$(22.5)

The assumptions used to compute the information above were as follows:

	Domestic Plans			International Plans		
	1994	1993	1992	**1994**	1993	1992
Discount rate – pension expense	**7.0%**	8.2	8.4	**7.3%**	9.0	9.5
Expected long-term rate of return on plan assets	**10.0%**	10.0	10.0	**11.3%**	10.8	10.8
Discount rate – projected benefit obligation	**9.0%**	7.0	8.2	**9.3%**	7.4	9.0
Future compensation growth rate	**3.3%-7.0%**	3.3-7.0	3.3-7.0	**3.0%-8.5%**	3.5-8.5	5.0-7.0

The discount rates and rates of return for the international plans represent weighted averages.

The year-to-year fluctuations in the discount rate assumptions primarily reflect changes in interest rates. The discount rates represent the expected yield on a portfolio of high-grade (AA rated or equivalent) fixed-income investments with cash flow streams sufficient to satisfy benefit obligations under the plans when due. The higher assumed discount rates used to measure the 1994 projected benefit obligation compared to the assumed discount rate used to measure the 1993 projected benefit obligation changed the funded status of certain plans from underfunded to overfunded.

In 1994, PepsiCo changed the method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization. Under the previous accounting method, the calculation of the market-related value of assets reflected amortization of the actual capital return on assets on a straight-line basis over a five-year period. Under the new method, the calculation of the market-related value of assets reflects the long-term rate of return expected by PepsiCo and amortization of the difference between the actual return (including capital, dividends and interest) and the expected return over a five-year period. PepsiCo believes the new method is widely used in practice and preferable because it results in calculated plan asset values that more closely approximate fair value, while still mitigating the effect of annual market-value fluctuations. Under both methods, only the cumulative net unrecognized gain or loss which exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets is subject to amortization. This change resulted in a noncash benefit in 1994 of $37.8 million ($23.3 million after-tax or $0.03 per share) representing the cumulative effect of the change related to years prior to 1994 and $35.1 million in lower pension expense ($21.6 million after-tax or $0.03 per share) related to 1994 as compared to the previous accounting method. Had this change been applied retroactively, pension expense would have been reduced by $16.4 million ($10.7 million after-tax or $0.01 per share) and $9.5 million ($6.5 million after-tax or $0.01 per share) in 1993 and 1992, respectively.

Note 14 - Postemployment Benefits Other Than to Retirees

Effective the beginning of 1994, PepsiCo adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." SFAS 112 requires PepsiCo to accrue the cost of certain postemployment benefits to be paid to terminated or inactive employees other than retirees. The principal effect to PepsiCo results from accruing severance benefits to be provided to employees of certain business units who are terminated in the ordinary course of business over the expected service lives of the employees. Previously, these benefits were accrued upon the occurrence of an event. Severance benefits resulting from actions not in the ordinary course of business will continue to be accrued when those actions occur. The cumulative effect charge upon adoption of SFAS 112, which relates to years prior to 1994, was $84.6 million ($55.3 million after-tax or $0.07 per share). As compared to the previous accounting method, the current year impact of adopting SFAS 112 was immaterial to 1994 operating profits. PepsiCo's cash flows have been unaffected by this accounting change as PepsiCo continues to largely fund postemployment benefit costs as incurred.

Note 15 - Franchise Arrangements

Franchise arrangements with restaurant franchisees generally provide for initial fees and continuing royalty payments to PepsiCo based upon a percentage of sales. The arrangements are intended to assist franchisees through, among other things, product development and marketing programs initiated by PepsiCo for both its company-owned and franchised operations. On a limited basis, franchisees have also entered into leases of restaurant properties leased or owned by PepsiCo (see Note 11). Royalty revenues, initial fees and rental payments from franchisees, which are included in Net Sales, aggregated $407 million, $357 million and $344 million in 1994, 1993 and 1992, respectively. Franchise royalty revenues, which represent the majority of these amounts, are recognized when earned. PepsiCo also has franchise arrangements with beverage bottlers, which do not provide for royalty payments.

Note 16 - Restructurings

PepsiCo recorded restructuring charges of $193.5 million in 1992 ($128.5 million after-tax or $0.16 per share) and $149.0 million in 1991 ($102.3 million after-tax or $0.13 per share). The 1992 charge related principally to streamlining and reorganizing the domestic beverage business, consolidating the snack food businesses in the U.K. and streamlining an acquired beverage bottling business in Spain. The 1991 charge related to streamlining snack food operations in the U.S. and U.K. and operations at KFC. These charges were classified in Selling, general and administrative expenses and were primarily for costs requiring future cash outlays. The annual accrual activity, including asset valuation allowances, and the related components were as follows:

	1994	1993	1992
Annual Accrual Activity			
Balance – Beginning of year	**$121.7**	$ 253.2	$112.6
New restructuring charges	**–**	–	193.5
New restructuring accruals - purchase price adjustments **(A)**	**–**	–	41.5
Accretion of interest on net present value of severance	**2.8**	6.9	–
Cash payments	**(50.6)**	(122.8)	(83.5)
Asset write-offs	**(4.0)**	(9.1)	(10.3)
Change in estimates	**(28.7)**	(6.5)	(0.6)
Balance – End of year	**$ 41.2**	$ 121.7	$253.2
Accrual Components			
Facility closings/fixed asset disposals	**$ 3.0**	$ 13.9	$ 35.3
Employee terminations **(A)**	**36.1**	103.2	153.9
Relocation of employees and equipment	**0.7**	2.2	29.1
Nonrecurring costs of redesigning core business processes **(B)**	**–**	0.7	25.3
Other	**1.4**	1.7	9.6
Balance – End of year **(C)**	**$ 41.2**	$ 121.7	$253.2

(A) Included amounts for termination of employees of an acquired beverage bottling business in Spain accounted for as a purchase. The acquired business was formerly accounted for as a 30% owned equity investment. Upon acquisition of the remaining 70%, 30% of the restructuring charge was included in income and 70% was a purchase price adjustment.

(B) Included only specific nonrecurring incremental and direct costs for activities clearly identifiable with the redesign of the domestic beverages' core business processes.

(C) The 1994 year-end balance of $41 million, which was primarily included in Other current liabilities, represented estimated future cash payments of $26 million, $12 million and $3 million in 1995, 1996 and 1997, respectively.

Note 17 - Income Taxes

In 1992, PepsiCo adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." PepsiCo elected to adopt SFAS 109 on a prospective basis, resulting in a noncash tax charge in 1992 of $570.7 million ($0.71 per share) for the cumulative effect of the change related to years prior to 1992. The cumulative effect primarily represented the recording of additional deferred tax liabilities related to identifiable intangible assets, principally acquired trademarks and reacquired franchise rights, that have no tax bases. These deferred tax liabilities would be paid only in the unlikely event the related intangible assets were sold in taxable transactions.

Detail of the provision for income taxes on income before cumulative effect of accounting changes was as follows:

		1994	1993	1992
Current	Federal	**$642.0**	$466.8	$413.0
	Foreign	**174.1**	195.5	170.4
	State	**131.2**	89.0	65.7
		947.3	751.3	649.1
Deferred	Federal	**(63.9)**	78.2	(18.8)
	Foreign	**(1.8)**	(12.5)	(33.5)
	State	**(1.2)**	17.6	0.3
		(66.9)	83.3	(52.0)
		$880.4	$834.6	$597.1

In 1993, a charge of $29.9 million ($0.04 per share) was recorded to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase under 1993 U.S. tax legislation. The effect of the higher rate on the 1993 increase in net deferred tax liabilities through the enactment date of the legislation was immaterial.

U.S. and foreign income before income taxes and cumulative effect of accounting changes were as follows:

	1994	1993	1992
U.S.	**$1,762.4**	$1,633.0	$1,196.8
Foreign	**902.0**	789.5	702.0
	$2,664.4	$2,422.5	$1,898.8

PepsiCo operates centralized concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The foreign amount in the above table includes approximately 50% (consistent with the allocation for tax purposes) of the income from U.S. sales of concentrate manufactured in Puerto Rico. See Management's Analysis – Overview on page 26 for a discussion of the reduction of the U.S. tax credit associated with beverage concentrate operations in Puerto Rico.

Reconciliation of the U.S. federal statutory tax rate to PepsiCo's effective tax rate on pretax income, based on the dollar impact of these major components on the provision for income taxes, was as follows:

	1994	1993	1992
U.S. federal statutory tax rate	**35.0%**	35.0%	34.0%
State income tax, net of federal tax benefit	**3.2**	2.9	2.3
Effect of lower taxes on foreign income (including Puerto Rico and Ireland)	**(5.4)**	(3.3)	(5.0)
Adjustment to the beginning-of-the-year deferred tax assets valuation allowance	**(1.3)**	–	–
Reduction of prior year foreign accruals	**–**	(2.0)	–
Effect of 1993 tax legislation on deferred income taxes	**–**	1.1	–
Nondeductible amortization of domestic goodwill	**0.8**	0.8	0.9
Other, net	**0.7**	–	(0.8)
Effective tax rate	**33.0%**	34.5%	31.4%

Detail of the 1994 and 1993 deferred tax liabilities (assets) was as follows:

	1994	1993
Intangible assets other than nondeductible goodwill	**$ 1,627.8**	$ 1,551.0
Property, plant and equipment	**506.4**	552.3
Safe harbor leases	**171.2**	177.5
Zero coupon notes	**110.6**	103.5
Other	**336.7**	549.0
Gross deferred tax liabilities	**2,752.7**	2,933.3
Net operating loss carryforwards	**(306.0)**	(241.5)
Postretirement benefits	**(248.3)**	(268.0)
Self-insurance reserves	**(71.2)**	(10.8)
Deferred state income taxes	**(69.1)**	(39.9)
Restructuring accruals	**(15.8)**	(42.0)
Various accrued liabilities and other	**(551.2)**	(686.8)
Gross deferred tax assets	**(1,261.6)**	(1,289.0)
Deferred tax assets valuation allowance	**319.3**	249.0
Net deferred tax liability	**$ 1,810.4**	$ 1,893.3
Included in:		
Prepaid expenses, taxes and other current assets	**$ (166.9)**	$ (138.2)
Other current liabilities	**4.4**	23.9
Deferred income taxes	**1,972.9**	2,007.6
	$ 1,810.4	$ 1,893.3

The valuation allowance related to deferred tax assets increased by $70.3 million in 1994 primarily resulting from additions related to current year net operating losses, partially offset by reversals related to prior year net operating losses. The net operating loss carryforwards largely related to a number of state and foreign jurisdictions and generally expire over a range of dates.

Deferred tax liabilities have not been recognized for bases differences related to investments in foreign subsidiaries and joint ventures. These differences, which consist primarily of unremitted earnings intended to be indefinitely reinvested, aggregated approximately $3.8 billion at year-end 1994 and $3.2 billion at year-end 1993, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

Tax benefits associated with exercises of stock options of $27.1 million in 1994, $23.4 million in 1993 and $57.5 million in 1992 were credited to shareholders' equity. A change in the functional currency of operations in Mexico from the U.S. dollar to local currency in 1993 resulted in a $19.3 million decrease in the net deferred foreign tax liability that was credited to shareholders' equity.

Note 18 - Employee Incentive Plans

PepsiCo has established certain employee incentive plans under which stock options are granted. A stock option allows an employee to purchase a share of PepsiCo Capital Stock (Stock) in the future at a price equal to the fair market value on the date of the grant.

Under the PepsiCo SharePower Stock Option Plan, approved by the Board of Directors and effective in 1989, essentially all employees other than executive officers, part-time and short-service employees may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over five years from the grant date and must be exercised within 10 years of the grant date. SharePower options were granted to approximately 128,000 employees in 1994, 118,000 employees in 1993 and 114,000 employees in 1992.

The shareholder-approved 1987 Long-Term Incentive Plan (the 1987 Plan), which has provisions similar to prior plans, provides incentives to eligible senior and middle management employees. In addition to grants of stock options, which are generally exercisable between 1 and 15 years from the grant date, the 1987 Plan allows for grants of performance share units (PSUs) to eligible senior management employees. A PSU is equivalent in value to a share of Stock at the grant date and vests for payment four years from the grant date, contingent upon attainment of prescribed Corporate performance goals. PSUs are not directly granted, as certain stock options granted may be surrendered by employees for a specified number of PSUs within 60 days of the option grant date. During 1994, 1,541,187 stock options were surrendered for 513,729 PSUs. At year-end 1994, 1993 and 1992, there were 629,202, 491,200 and 484,698 outstanding PSUs, respectively.

Grants under the 1987 Plan are approved by the Compensation Committee of the Board of Directors (the Committee), which is composed of outside directors. Payment of awards other than stock options is made in cash and/or Stock as approved by the Committee, and amounts expensed for such awards were $7 million, $5 million and $11 million in 1994, 1993 and 1992, respectively. Under the 1987 Plan, a maximum of 54 million shares of Stock can be purchased or paid pursuant to grants. There were 7 million, 20 million, 22 million and 32 million shares available for future grants at year-end 1994, 1993, 1992 and 1991, respectively. The Committee does not intend to grant future awards under the 1987 Plan.

On May 4, 1994, PepsiCo's shareholders approved the 1994 Long-Term Incentive Plan (the 1994 Plan). The 1994 Plan continues the principal features of the 1987 Plan and authorizes a maximum of 75 million shares of Stock which may be purchased or paid pursuant to grants by the Committee. The first awards under the 1994 Plan were made as of January 1, 1995.

1994, 1993 and 1992 activity for the stock option plans included:

(options in thousands)	SharePower	Long-Term Incentive
Outstanding at December 28, 1991	23,801	27,834
Granted	8,477	12,653
Exercised	(1,155)	(5,155)
Surrendered for PSUs	–	(503)
Canceled	(2,327)	(1,839)
Outstanding at December 26, 1992	28,796	32,990
Granted	9,121	2,834
Exercised	(1,958)	(1,412)
Surrendered for PSUs	–	(96)
Canceled	(2,524)	(966)
Outstanding at December 25, 1993	33,435	33,350
Granted	**11,633**	**16,237**
Exercised	**(1,820)**	**(3,052)**
Surrendered for PSUs	**–**	**(1,541)**
Canceled	**(3,443)**	**(2,218)**
Outstanding at December 31, 1994	**39,805**	**42,776**
Exercisable at December 31, 1994	**16,115**	**18,439**
Option prices per share:		
Exercised during 1994	$17.58 to $36.75	$4.11 to $38.75
Exercised during 1993	$17.58 to $36.75	$4.11 to $36.31
Exercised during 1992	$17.58 to $35.25	$4.11 to $29.88
Outstanding at year-end 1994	$17.58 to $36.75	$7.69 to $42.81

Note 19 - Contingencies

PepsiCo is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already provided arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition. At year-end 1994 and 1993, PepsiCo was contingently liable under guarantees aggregating $187 million and $276 million, respectively. The guarantees are primarily issued to support financial arrangements of certain PepsiCo joint ventures, and bottling and restaurant franchisees. PepsiCo manages the risk associated with these guarantees by performing appropriate credit reviews in addition to retaining certain rights as a joint venture partner or franchisor. See Note 10 for information related to the fair value of the guarantees.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and judgments, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that the representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting designed to provide reasonable assurance as to the reliability of the financial statements. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost effective internal control system will preclude all errors and irregularities, we believe our controls as of December 31, 1994 provide reasonable assurance that the financial statements are reliable.

Wayne Calloway

Wayne Calloway
Chairman of the Board and Chief Executive Officer

Robert H Dettmer

Robert G. Dettmer
Executive Vice President and Chief Financial Officer

Robert L Carleton

Robert L. Carleton
Senior Vice President and Controller

February 7, 1995

Report of Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 31, 1994 and December 25, 1993, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 1994, appearing on pages 27, 28, 29, 30, 32, 34 and 36 through 45. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 31, 1994 and December 25, 1993, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes 14 and 13 to the consolidated financial statements, PepsiCo, Inc. in 1994 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," and changed its method for calculating the market-related value of pension plan assets used in the determination of pension expense, respectively. As discussed in Notes 12 and 17 to the consolidated financial statements, PepsiCo, Inc. in 1992 adopted the provisions of the Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and No. 109, "Accounting for Income Taxes," respectively.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
New York, New York
February 7, 1995

Selected Quarterly Financial Data

(in millions except per share amounts, unaudited)
PepsiCo, Inc. and Subsidiaries

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (17/16 Weeks)[e]		Full Year (53/52 Weeks)[e]	
	1994[a]	1993	**1994[a][c]**	1993	**1994[a]**	1993[d]	**1994[a]**	1993	**1994[a][c]**	1993[d]
Net sales	**$5,728.9**	5,091.6	**6,557.0**	5,890.3	**7,064.0**	6,316.4	**9,122.5**	7,722.4	**28,472.4**	25,020.7
Gross profit	**$2,944.4**	2,641.4	**3,419.5**	3,102.8	**3,684.0**	3,322.1	**4,709.1**	4,008.3	**14,757.0**	13,074.6
Operating profit	**$ 550.5**	506.0	**785.0**	750.4	**961.7**	851.6	**904.0**	798.5	**3,201.2**	2,906.5
Income before income taxes and cumulative effect of accounting changes	**$ 438.4**	391.6	**672.2**	635.7	**830.3**	736.5	**723.5**	658.7	**2,664.4**	2,422.5
Provision for income taxes	**$ 155.6**	131.2	**225.7**	208.9	**288.9**	278.3	**210.2**	216.2	**880.4**	834.6
Income before cumulative effect of accounting changes	**$ 282.8**	260.4	**446.5**	426.8	**541.4**	458.2	**513.3**	442.5	**1,784.0**	1,587.9
Cumulative effect of accounting changes[b]	**$ (32.0)**	–	**–**	–	**–**	–	**–**	–	**(32.0)**	–
Net income	**$ 250.8**	260.4	**446.5**	426.8	**541.4**	458.2	**513.3**	442.5	**1,752.0**	1,587.9
Income (charge) per share:										
Income before cumulative effect of accounting changes	**$ 0.35**	0.32	**0.55**	0.53	**0.68**	0.56	**0.64**	0.55	**2.22**	1.96
Cumulative effect of accounting changes[b]	**$ (0.04)**	–	**–**	–	**–**	–	**–**	–	**(0.04)**	–
Net income per share	**$ 0.31**	0.32	**0.55**	0.53	**0.68**	0.56	**0.64**	0.55	**2.18**	1.96

(a) Included the current year benefit of changing the method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization, which reduced full-year pension expense by $35.1 ($21.6 after-tax or $0.03 per share). This benefit was prorated over each of the four quarters. See Note 13.

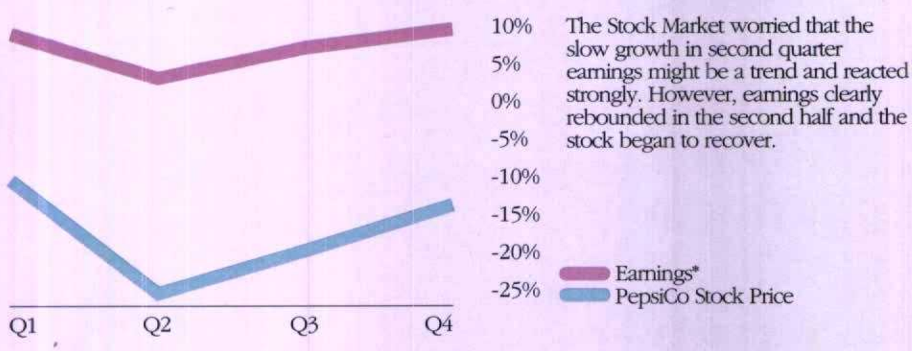
(b) Represented the cumulative net effect related to years prior to 1994 of adopting SFAS 112, "Employers' Accounting for Postemployment Benefits," and the change in the method for calculating the market-related value of pension plan assets. See Notes 14 and 13, respectively.

(c) Included a $17.8 gain ($16.8 after-tax or $0.02 per share) arising from a public share offering by PepsiCo's BAESA joint venture in South America. See Note 4.

(d) Included a $29.9 charge ($0.04 per share) to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. tax legislation. See Note 17.

(e) Fiscal years 1994 and 1993 consisted of 53 and 52 weeks, respectively. The estimated favorable impact of the 53rd week on 1994 fourth quarter and full-year earnings was $54.0 ($34.9 after-tax or $0.04 per share).

Cumulative Earnings Growth vs. Change in Stock Price in 1994



* Excludes unusual items noted above in notes (c) and (d).

Selected Financial Data

(in millions except per share and employee amounts, unaudited) PepsiCo, Inc. and Subsidiaries	Growth Rates: Compounded 10-Year 1984-94	Growth Rates: Compounded 5-Year 1989-94	Growth Rates: Annual 1-Year 1993-94	1994[a][b]	1993[c]
Summary of Operations					
Net sales	15.0%	13.6%	13.8%	**$28,472.4**	25,020.7
Cost of sales and operating expenses				**25,271.2**	22,114.2
Operating profit	18.6%	12.5%	10.1%	**3,201.2**	2,906.5
Gain on joint venture stock offering[h]				**17.8**	–
Interest expense				**(645.0)**	(572.7)
Interest income				**90.4**	88.7
Income from continuing operations before income taxes and cumulative effect of accounting changes	19.2%	14.7%	10.0%	**2,664.4**	2,422.5
Provision for income taxes				**880.4**	834.6
Income from continuing operations before cumulative effect of accounting changes	20.3%	14.6%	12.3%	**$ 1,784.0**	1,587.9
Cumulative effect of accounting changes[i]				**$ (32.0)**	–
Net income[j]	23.5%	14.2%	10.3%	**$ 1,752.0**	1,587.9
Per Share Data					
Income from continuing operations before cumulative effect of accounting changes	21.0%	14.5%	13.3%	**$ 2.22**	1.96
Cumulative effect of accounting changes[i]				**$ (0.04)**	–
Net income[j]	24.2%	14.0%	11.2%	**$ 2.18**	1.96
Cash dividends declared	14.2%	16.9%	14.8%	**$ 0.700**	0.610
Average shares and equivalents outstanding				**803.6**	810.1
Cash Flow Data[k]					
Net cash provided by continuing operations	14.2%	14.5%	18.6%	**$ 3,716.0**	3,134.4
Cash acquisitions and investments in affiliates				**$ 315.8**	1,011.2
Cash capital spending	15.0%	19.0%	13.7%	**$ 2,253.2**	1,981.6
Cash dividends paid	13.3%	17.4%	17.0%	**$ 540.2**	461.6
Year-End Position					
Total assets	17.7%	10.4%	4.6%	**$24,792.0**	23,705.8
Long-term debt	29.5%	7.8%	18.8%	**$ 8,840.5**	7,442.6
Total debt[l]	25.9%	6.5%	(1.2)%	**$ 9,519.0**	9,633.8
Shareholders' equity				**$ 6,856.1**	6,338.7
Per share	14.8%	12.0%	9.3%	**$ 8.68**	7.94
Market price per share	22.9%	11.1%	(13.4)%	**$ 36¼**	41⅞
Shares outstanding				**789.9**	798.8
Employees	12.1%	12.1%	11.3%	**471,000**	423,000
Statistics					
Return on average shareholders' equity[m]				**27.0%**	27.2
Market net debt ratio[n]				**26%**	22
Historical cost net debt ratio[o]				**49%**	50

All share and per share amounts reflect three-for-one stock splits in 1990 and 1986. Additionally, PepsiCo made numerous acquisitions in most years presented and a few divestitures in certain years. Such transactions did not materially affect the comparability of PepsiCo's operating results for the periods presented, except for certain large acquisitions made in 1986, 1988 and 1989, and the divestitures discussed in Notes (g) and (j).

(a) Included the current year benefit of changing the method for calculating the market-related value of plan assets, which reduced full-year pension expense by $35.1 ($21.6 after-tax or $0.03 per share). See Note 13.

(b) Fiscal years 1994 and 1988 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years. The 53rd week increased 1994 earnings by approximately $54.0 ($34.9 after-tax or $0.04 per share) and 1988 earnings by approximately $23.2 ($15.7 after-tax or $0.02 per share).

(c) Included a $29.9 charge ($0.04 per share) to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. tax legislation. See Note 17.

(d) Included $193.5 in unusual charges for restructuring ($128.5 after-tax or $0.16 per share). See Note 2 on page 27 and Note 16.

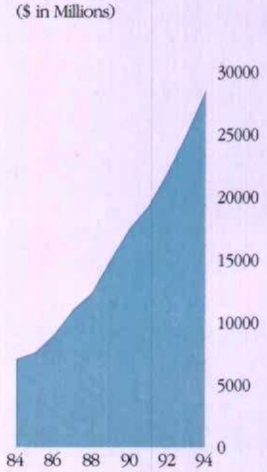
(e) Included $170.0 in unusual charges ($119.8 after-tax or $0.15 per share). See Note 2 on page 27.

(f) Included $83.0 in unusual charges ($48.8 after-tax or $0.06 per share). See Note 2 on page 27.

(g) Included a $156.0 unusual charge ($62.0 after-tax or $0.07 per share) related to a program to sell several international bottling operations.

(h) The $17.8 gain ($16.8 after-tax or $0.02 per share) in 1994 arose from a public share offering by PepsiCo's BAESA joint venture in South America. See Note 4. The $118.2 gain ($53.0 after-tax or $0.07 per share) in 1990 arose from an initial public offering of new shares by a KFC joint venture in Japan and a sale by PepsiCo of a portion of its shares.

Net Sales
($ in Millions)



1992(d)	1991(e)	1990(f)	1989	1988(b)	1987	1986	1985	1984(g)
21,970.0	19,292.2	17,515.5	15,049.2	12,381.4	11,018.1	9,017.1	7,584.5	7,058.6
19,598.8	17,180.4	15,473.4	13,276.6	11,039.6	9,890.5	8,187.9	6,802.4	6,479.3
2,371.2	2,111.8	2,042.1	1,772.6	1,341.8	1,127.6	829.2	782.1	579.3
–	–	118.2	–	–	–	–	–	–
(586.1)	(613.7)	(686.0)	(607.9)	(342.4)	(294.6)	(261.4)	(195.2)	(204.9)
113.7	161.6	179.5	175.3	120.5	112.6	122.7	96.4	86.1
1,898.8	1,659.7	1,653.8	1,340.0	1,119.9	945.6	690.5	683.3	460.5
597.1	579.5	563.2	438.6	357.7	340.5	226.7	256.7	180.5
1,301.7	1,080.2	1,090.6	901.4	762.2	605.1	463.8	426.6	280.0
(927.4)	–	–	–	–	–	–	–	–
374.3	1,080.2	1,076.9	901.4	762.2	594.8	457.8	543.7	212.5
1.61	1.35	1.37	1.13	0.97	0.77	0.59	0.51	0.33
(1.15)	–	–	–	–	–	–	–	–
0.46	1.35	1.35	1.13	0.97	0.76	0.58	0.65	0.25
0.510	0.460	0.383	0.320	0.267	0.223	0.209	0.195	0.185
806.7	802.5	798.7	796.0	790.4	789.3	786.5	842.1	862.4
2,711.6	2,430.3	2,110.0	1,885.9	1,894.5	1,334.5	1,212.2	817.3	981.5
1,209.7	640.9	630.6	3,296.6	1,415.5	371.5	1,679.9	160.0	–
1,549.6	1,457.8	1,180.1	943.8	725.8	770.5	858.5	770.3	555.8
395.5	343.2	293.9	241.9	199.0	172.0	160.4	161.1	154.6
20,951.2	18,775.1	17,143.4	15,126.7	11,135.3	9,022.7	8,027.1	5,889.3	4,876.9
7,964.8	7,806.2	5,899.6	6,076.5	2,656.0	2,579.2	2,632.6	1,162.0	668.1
8,671.6	8,034.4	7,526.1	6,942.8	4,107.0	3,225.1	2,865.3	1,506.1	948.9
5,355.7	5,545.4	4,904.2	3,891.1	3,161.0	2,508.6	2,059.1	1,837.7	1,853.4
6.70	7.03	6.22	4.92	4.01	3.21	2.64	2.33	2.19
42¼	33¾	25¾	21⅜	13⅛	11¼	8¾	7⅞	4⅝
798.8	789.1	788.4	791.1	788.4	781.2	781.0	789.4	845.2
372,000	338,000	308,000	266,000	235,000	225,000	214,000	150,000	150,000
23.9	20.7	24.8	25.6	26.9	26.5	23.8	23.1	15.4
19	21	24	26	24	22	28	15	12
49	51	51	54	43	41	46	30	17

(i) Represents the cumulative effect of adopting in 1994 SFAS 112, "Employers' Accounting for Postemployment Benefits," and changing the method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization (see Notes 14 and 13, respectively) and adopting in 1992 SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS 109, "Accounting for Income Taxes" (see Notes 12 and 17, respectively). Prior years were not restated for these changes in accounting.

(j) Included impacts of discontinued operations, the most significant of which were in 1985 and 1984. 1985 included income of $123.6 after-tax ($0.15 per share) and 1984 included charges of $62.5 after-tax ($0.07 per share) resulting from PepsiCo disposing of its sporting goods and transportation segments.

(k) Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

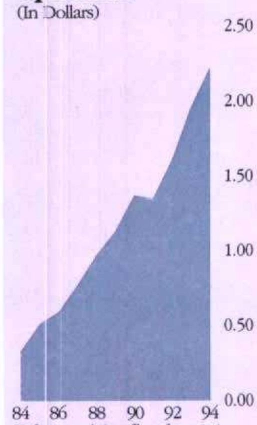
(l) Total debt includes short-term borrowings and long-term debt, which for 1987 through 1990 included a nonrecourse obligation.

(m) The return on average shareholders' equity is calculated using income from continuing operations before cumulative effect of accounting changes.

(n) The market net debt ratio represents net debt as a percent of net debt plus the market value of equity, based on the year-end stock price. Net debt is total debt, which for this purpose includes the present value of long-term operating lease commitments, reduced by the pro forma remittance of investment portfolios held outside the U.S. For 1987 through 1990, total debt was also reduced by the nonrecourse obligation in the calculation of net debt.

(o) The historical cost net debt ratio represents net debt (see Note n) as a percent of capital employed (net debt, other liabilities, deferred income taxes and shareholders' equity).

Income Per Share From Continuing Operations*
(In Dollars)



*Before cumulative effect of accounting changes.

Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

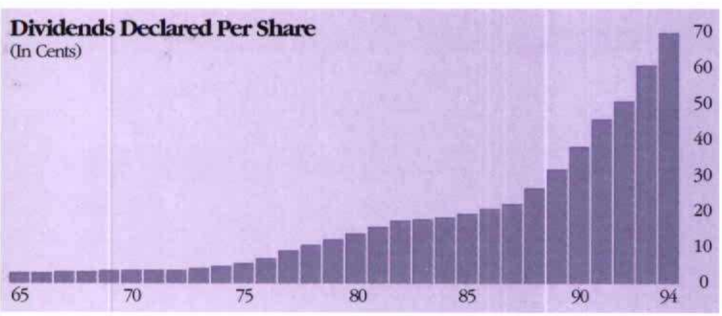
The New York Stock Exchange is the principal market for PepsiCo Capital Stock, which is also listed on the Chicago, Basel, Geneva, Zurich, Amsterdam and Tokyo Stock Exchanges.

Shareholders

At year-end 1994, there were approximately 168,000 shareholders of record.

Dividend Policy

Quarterly cash dividends are usually declared in November, February, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for 1995 will be March 10, June 9, September 8 and December 8.



Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends paid per share have increased for 22 consecutive years.

Consistent with PepsiCo's current payout target of approximately one-third of the prior year's income from ongoing operations, the 1994 dividends declared represented 34% of 1993 income from ongoing operations.

Dividends Declared Per Share (in cents)

Quarter	**1994**	1993
1	**16**	13
2	**18**	16
3	**18**	16
4	**18**	16
Total	**70**	61

Stock Prices

The high, low and closing prices for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each fiscal quarter of 1994 and 1993 were as follows (in dollars):

1994	**High**	**Low**	**Close**
Fourth Quarter	**37⅜**	**32¼**	**36¼**
Third Quarter	**34⅝**	**29¼**	**33¾**
Second Quarter	**37⅞**	**29⅞**	**31⅛**
First Quarter	**42½**	**35¾**	**37⅝**
1993	High	Low	Close
Fourth Quarter	42⅜	37⅞	41⅞
Third Quarter	40⅜	34⅜	39
Second Quarter	43⅝	34½	36½
First Quarter	43⅜	38½	42

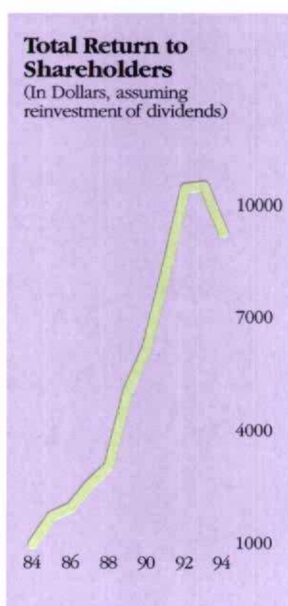
Stock Performance

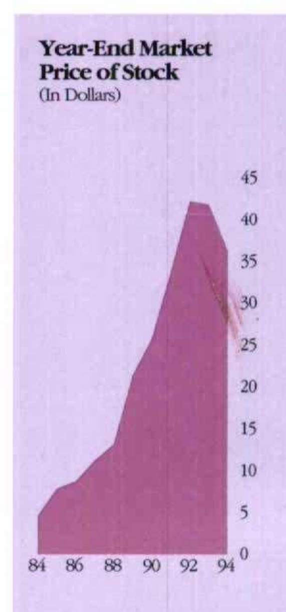
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made at year-end 1984 was worth $9,300 on December 31, 1994, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 25%.

The return on PepsiCo Capital Stock compares favorably with the performance of the Standard & Poor's Industrials over the past five years.

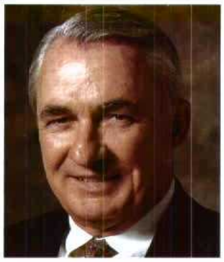
The closing price for a share of PepsiCo Capital Stock on the New York Stock Exchange is as reported by the Dow Jones News/Retrieval Service for the end of each fiscal year 1984-1994.

Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

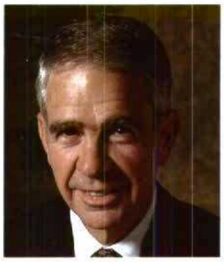




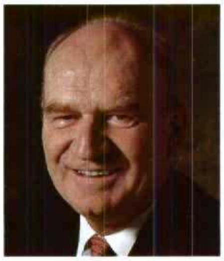
PepsiCo Directors



John F. Akers,
60, former Chairman of the Board and Chief Executive Officer, International Business Machines Corporation. Elected 1991. Mr. Akers joined IBM in 1960, and became its Chairman and Chief Executive Officer in 1986. Director: The New York Times Company; Springs Industries, Inc.; Zurich Insurance Co.-U.S.

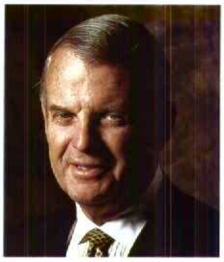


Robert E. Allen,
60, Chairman of the Board and Chief Executive Officer, AT&T Corp. Elected 1990. Mr. Allen began his career at AT&T in 1957. He was elected President and Chief Operating Officer in 1986 and assumed his present responsibilities in 1988. Director: Bristol-Myers Squibb Company, Chrysler Corporation.



Wayne Calloway,
59, Chairman of the Board and Chief Executive Officer, PepsiCo, Inc. Elected 1983. Mr. Calloway joined PepsiCo in 1967. He became President of Frito-Lay, Inc. in 1976, and Executive Vice President and Chief Financial Officer of PepsiCo in 1983. He became President and Chief Operating Officer in 1985 and assumed his current position in 1986. Director: Citicorp, General Electric Company, Exxon Corporation.

Roger A. Enrico,
50, Vice Chairman of the Board, PepsiCo, Inc. and Chairman and Chief Executive Officer, PepsiCo Worldwide Restaurants. Elected 1987. Mr. Enrico joined PepsiCo in 1971. He served as President and Chief Executive Officer of PepsiCo Worldwide Beverages and Chairman and Chief Executive Officer of PepsiCo Worldwide Foods. He was named Vice Chairman of PepsiCo in 1993 and Chairman, PepsiCo Worldwide Restaurants at the end of 1994. Director: Dayton Hudson Corporation, The Prudential Insurance Company of America.

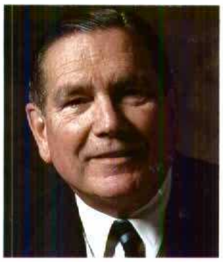


John J. Murphy,
63, Chairman and Chief Executive Officer, Dresser Industries. Elected 1984. Mr. Murphy joined Dresser in 1952 and was elected Chairman and Chief Executive Officer in 1983. Director: NationsBank Corporation, Kerr-McGee Corporation.

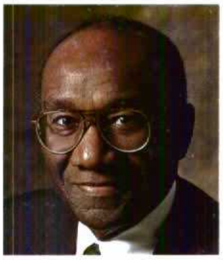
Andrall E. Pearson,
69, former Professor, Harvard Business School. Elected 1970. Mr. Pearson was PepsiCo's President and Chief Operating Officer from 1971 through 1984. Director: The May Department Stores Company, The Travelers Group, Lexmark International, Inc. General Partner: Clayton, Dubilier & Rice, Inc. Chairman of the Board: Kraft Foodservice Company.

Sharon Percy Rockefeller,
50, President and Chief Executive Officer, WETA public stations in Washington, D.C. Elected 1986. Mrs. Rockefeller was a member of the Board of Directors of WETA from 1985 to 1989, a member of the Board of Directors of the Corporation for Public Broadcasting until 1992 and has also been a Member of the Democratic National Committee. Director: Public Broadcasting Service, Washington, D.C.

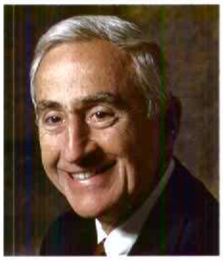
Roger B. Smith,
69, former Chairman and Chief Executive Officer, General Motors Corp. Elected 1989. Mr. Smith joined General Motors Corp. in 1949 and became its Chairman and Chief Executive Officer in 1981. Director: Citicorp, International Paper Co., Johnson & Johnson.



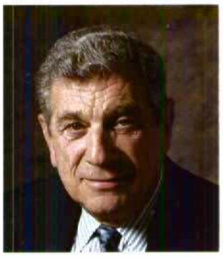
Robert H. Stewart, III,
69, Vice Chairman, Bank One, Texas, N.A. Elected 1965. Chairman: Compensation Committee. Mr. Stewart has served as Chairman of the Board of First RepublicBank Corporation, Vice Chairman of the Board of LaSalle Energy Corp. and Vice Chairman of the Board of Team Bank. He assumed his present position in 1992 upon the acquisition of Team Bancshares Inc. by BANC ONE CORPORATION. Director: ARCO Chemical Co.



Franklin A. Thomas,
60, President of the Ford Foundation since 1979. Elected 1994. From 1967 to 1977, Mr. Thomas was President and Chief Executive Officer of the Bedford-Stuyvesant Restoration Corporation. From 1977 to 1979, Mr. Thomas had a private law practice in New York City. Director: ALCOA; AT&T; CBS Inc.; Citicorp; Cummins Engine Company, Inc.



P. Roy Vagelos,
65, former Chairman of the Board and Chief Executive Officer, Merck & Co., Inc. Elected 1992. Dr. Vagelos joined Merck in 1975 and became President and Chief Executive Officer in 1985. He became a director in 1984 and Chairman in 1986. Director: The Prudential Insurance Company of America, McDonnell Douglas Corporation. Chairman of the Board: Regeneron Pharmaceuticals Inc.



Arnold R. Weber,
65, Chancellor, Northwestern University. Elected 1978. Chairman: Audit Committee. Dr. Weber has held various government positions, including Executive Director of the Cost of Living Council and Associate Director of the Office of Management and Budget. Director: Aon Corp.; Burlington Northern, Inc.; Inland Steel Company; The Tribune Co.; Deere Co.

Principal Divisions and Corporate Officers

(Listings include age and years of PepsiCo experience and officers located at corporate headquarters.)

Executive Offices

Purchase, New York 10577
(914) 253-2000

Divisions

Pepsi-Cola North America
1 Pepsi Way
Somers, New York 10589
(914) 767-6000
Craig E. Weatherup, President and
Chief Executive Officer, 49, 20 years

Frito-Lay, Inc.
7701 Legacy Drive
Plano, Texas 75024
(214) 334-7000
Steven S Reinemund, President and
Chief Executive Officer, 46, 10 years

PepsiCo Foods and Beverages International
1 Pepsi Way
Somers, New York 10589
(914) 767-6000
Christopher A. Sinclair, President and
Chief Executive Officer, 44, 12 years

PepsiCo Worldwide Restaurants
6303 Forest Park Road, Suite 400
Dallas, Texas 75235
(214) 353-4600
Roger A. Enrico, Chairman and Chief
Executive Officer, and PepsiCo Vice
Chairman of the Board, 50, 23 years

Pizza Hut, Inc.
9111 East Douglas
Wichita, Kansas 67207
(316) 681-9000
Allan S. Huston, President and
Chief Executive Officer, 51, 23 years

Taco Bell Corp.
17901 Von Karman
Irvine, California 92714
(714) 863-4500
John E. Martin, Chairman and
Chief Executive Officer, 49, 11 years
Kenneth T. Stevens, President, 43, 4 years

Kentucky Fried Chicken Corporation
1441 Gardiner Lane
Louisville, Kentucky 40213
(502) 456-8300
David C. Novak, President and
Chief Executive Officer, 42, 8 years

PepsiCo Restaurants International
6303 Forest Park Road, Suite 400
Dallas, Texas 75235
(214) 353-4600
Laurence M. Zwain, President and
Chief Operating Officer, 42, 8 years

PepsiCo Food Systems
6606 LBJ Freeway (Suite 150A)
Dallas, Texas 75240
(214) 338-7280
Robert C. Hunter, President, 46, 20 years

Co-founder of PepsiCo, Inc.

Donald M. Kendall
Chairman of the PepsiCo Foundation,
47 years of PepsiCo experience

Officers

Wayne Calloway
Chairman of the Board and
Chief Executive Officer, 59, 28 years

Robert G. Dettmer
Executive Vice President and
Chief Financial Officer, 63, 22 years

Randall C. Barnes
Senior Vice President and
Treasurer, 43, 7 years

Robert L. Carleton
Senior Vice President and
Controller, 54, 20 years

J. Roger King
Senior Vice President,
Personnel, 54, 25 years

Edward V. Lahey, Jr.
Senior Vice President, General
Counsel and Secretary, 56, 29 years

Joseph F. McCann
Senior Vice President,
Public Affairs, 54, 22 years

Indra K. Nooyi
Senior Vice President,
Strategic Planning, 39, 1 year

Leonard Schutzman
Senior Vice President, 48, 18 years

Robert O. Barber
Vice President and
Assistant Controller, 45, 17 years

Robert K. Biggart
Vice President and
International Counsel, 40, 10 years

Gerard W. Casey
Vice President and
Associate General Counsel, 52, 25 years

Douglas M. Cram
Vice President and
Assistant General Counsel, 52, 21 years

Patricia A. Creekmore
Vice President and
General Auditor, 43, 3 years

Allan B. Deering
Vice President, Management Information
Services, 60, 14 years

Lawrence F. Dickie
Vice President, Associate General Counsel
and Assistant Secretary, 52, 18 years

William A. Finkelstein
Vice President and
Intellectual Property Counsel, 47, 21 years

Karen L. Halby
Vice President, Tax Counsel,
North America, 36, 3 years

Ronald E. Harrison
Vice President,
Community Affairs, 59, 30 years

David D. Hatch
Vice President, Organization and
Management Development, 41, 11 years

Linda S. Huber
Vice President, Corporate Finance and
Assistant Treasurer, 36, 1 year

Burkett W. Huey, Jr.
Vice President, Benefits,
53, 3 years

Joseph J. Joyce
Vice President and
Assistant General Counsel, 51, 23 years

Andrew J. Kaslow
Vice President, Human Resources,
45, 3 years

Jay M. Kushner
Vice President, International Taxes,
38, 10 years

Kathleen Allen Luke
Vice President and Corporate Division
Counsel, 39, 9 years

Matthew M. McKenna
Vice President, Taxes, 44, 1 year

Fred S. McRobie
Vice President and
Assistant General Counsel, 53, 20 years

Margaret D. Moore
Vice President, Investor Relations,
47, 21 years

Ronald C. Parker
Vice President, Corporate
Human Resources, 41, 12 years

David E. Scherb
Vice President,
Compensation, 46, 7 years

Christopher G. Schipper
Vice President, Strategic Planning,
Restaurant Group, 39, under one year

Peter R. Thompson
Vice President, Corporate Finance and
Assistant Treasurer, 45, 17 years

Sandra S. Wijnberg
Vice President, Corporate Finance and
Assistant Treasurer, 38, under one year

John C. Wilen
Vice President, Corporate
Strategic Planning, 35, 1 year

David L. Wright
Vice President, Government Affairs,
46, 10 years

Shareholder Information

Annual Shareholders' Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York at 9 - 11 a.m. (EDT), Wednesday, May 3, 1995. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (Shares held by you in your name): Questions on your statement, dividend payments, address changes or other matters should be directed to:

PepsiCo, Inc.	or	Manager, Shareholder Relations
c/o Bank of Boston		PepsiCo, Inc.
P.O. Box 9155		Purchase, New York 10577
Boston, MA 02205-9155		Telephone: (914) 253-3055
Telephone: (800) 226-0083		

In all correspondence or phone inquiries, please mention PepsiCo, your name **as printed on your stock certificate,** your social security number, your address and telephone number.

Beneficial Shareholders (Shares held by your broker in the name of the brokerage house): Questions should be directed to your broker on all administrative matters.

SharePower Participants: Employee questions regarding your account, outstanding options or shares received through option exercises should be addressed to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30466
New Brunswick, New Jersey 08989
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)
(908) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Capital Stock Purchase Plan	(800) 227-4015
SaveUp (formerly 401(k) or Long-term Savings)	(800) 227-4015
P.O. Box 9108	(617) 472-3127
Boston, MA 02209	(outside U.S.)
ESOP	(914) 253-3863

Please have a copy of your most recent statement available when calling with inquiries.

Dividend Reinvestment Plan

A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

PepsiCo, Inc.
c/o Bank of Boston
P.O. Box 9156
Boston, MA 02205-9156 Telephone: (800) 226-0083

Direct Deposit of Dividends

PepsiCo's new optional Direct Deposit service, for the payment of your common stock dividend, offers a convenient method of electronically depositing your quarterly dividend payment to your checking, savings and credit union accounts. This service provides you with the immediate use of your money on the dividend payment date. If the payable date falls on a weekend or a holiday, the dividend will be credited on the following business day.

Additional information and an authorization card to take advantage of this optional Direct Deposit service is available from our transfer agent, at 1-800-226-0083.

Financial Information

Individuals with questions regarding PepsiCo's performance are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, New York 10577 Telephone: (914) 253-3035

Shareholders who wish to receive, free of charge, copies of PepsiCo's Form 10-K and 10-Q reports filed with the Securities and Exchange Commission, quarterly earnings releases (including segment results) or midyear update, contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

PepsiCo's 1995 quarterly earnings releases are expected to take place on May 2, July 25 and October 17, 1995 and February 6, 1996.

Independent Auditors

KPMG Peat Marwick LLP
345 Park Avenue
New York, New York 10154 Telephone: (212) 758-9700

Eliminate Waste

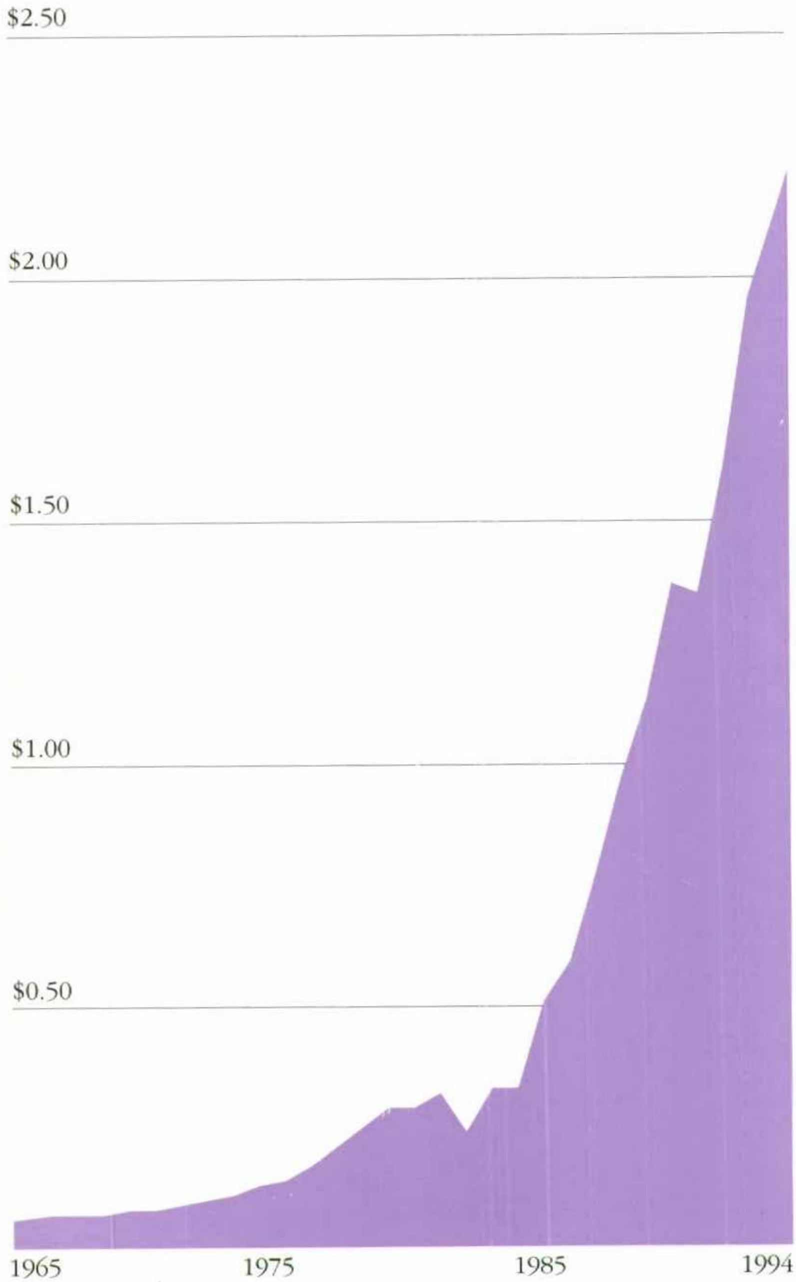
If you currently receive duplicate reports, you can help eliminate the added expense by requesting that only *one* copy be sent. Please provide the name, address and social security number for the account you wish to keep on the list, and which names should be deleted. **This change will not affect your dividend or proxy mailings.**

Special thanks to Cindy Crawford, who has appeared in Pepsi advertising for the last few years and become a very welcome part of our PepsiCo family.

Design: Eisenman Associates
Printing: The Bradley Printing Company
Photography: Patrick Demarchelier
Major Product Photography: Ben Rosenthal
Chairman's and Directors' Photography: Alen MacWeeney
Wardrobe: Wayne Scot Lukas
Hair: Stephen Knoll
Make-up: Sonia Kashuk
♻ Printed on recycled paper.

Income Per Share from Continuing Operations*

(In Dollars)



*Restated for stock splits. Before cumulative effect of accounting changes.